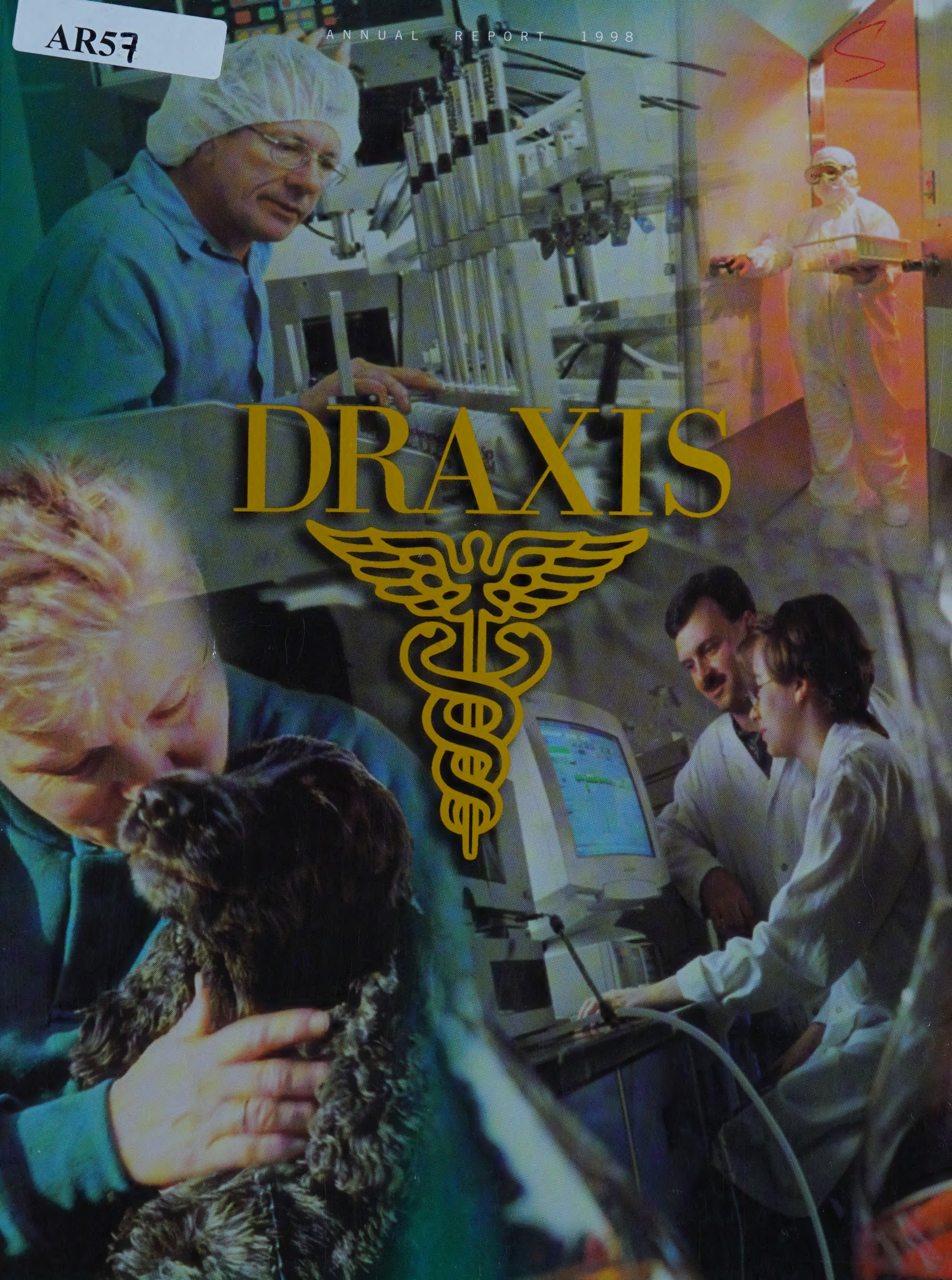
ANNUAL REPORT 1998



DRAXIS

DRAXIS

GROWING BY LEVERAGING ITS STRENGTHS

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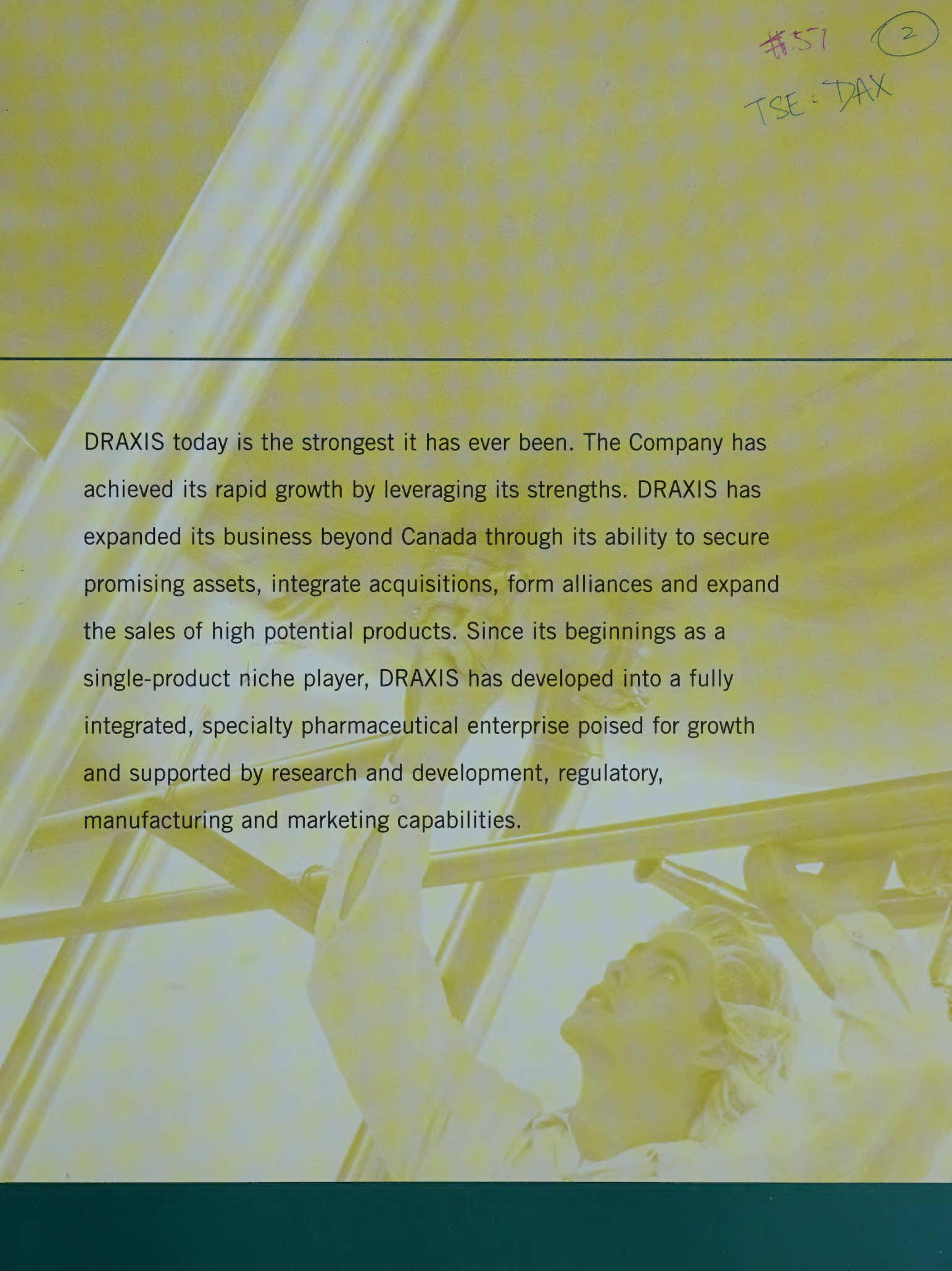
TSE: DAX

DRAXIS today is the strongest it has ever been. The Company has achieved its rapid growth by leveraging its strengths. DRAXIS has expanded its business beyond Canada through its ability to secure promising assets, integrate acquisitions, form alliances and expand the sales of high potential products. Since its beginnings as a single-product niche player, DRAXIS has developed into a fully integrated, specialty pharmaceutical enterprise poised for growth and supported by research and development, regulatory, manufacturing and marketing capabilities.



FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars except share related data)	1998	1997	1996	1995	1994
Revenue	$ 53,341	$ 44,488	$ 14,100	$ 15,434	$ 16,243
Research & Development	3,242	2,271	1,444	1,937	1,545
EBITDA[1]	11,797	(12,733)	(5,193)	653	4,968
Net Income (Loss)	5,045	(20,923)	(166)	2,417	1,099
Cash & Cash Equivalents	3,676	20,262	25,828	16,606	11,691
Total Assets	$ 90,637	$ 58,859	$ 67,539	$ 35,052	$ 33,062

1 Earnings (loss) before depreciation and amortization, financial income (expense), other income (expense), income taxes and equity share of loss of affiliated companies

SIGNIFICANT RECENT EVENTS

November 1996
Acquisition of control of Deprenyl Animal Health, Inc.

February 1997
Acquisition of Spectro-Pharm Inc.

July 1997
Acquisition of radiopharmaceutical division of Merck Frosst Canada Inc.

December 1997
Global licensing arrangement entered into with Pfizer Inc. in respect of Anipryl®

December 1998
U.S. Food and Drug Administration approval of Anipryl® for cognitive dysfunction syndrome

May 1998
Acquisition of pharmaceutical manufacturing facility from Baker Cummins Inc.

10-year extension agreement signed with Eli Lilly Canada Inc. in respect of the license for Permax®

PRESIDENT'S MESSAGE

Today DRAXIS is the strongest it has ever been. Leveraging our strengths during 1998 enabled us to achieve the highest annual revenues in our history – $33 million from operations – $53 million including milestone payments. In total, we now have more than forty products in the marketplace, four products filed with regulators, and seven products in various stages of research and development.

We have developed into a diversified and specialized pharmaceutical company with a marketplace extending well beyond Canada. Our continued success depends on our ability to leverage our strengths in acquisitions, alliance-building, scientific regulatory and product development, marketing and selling, and now in manufacturing. This strategy has proven successful as demonstrated by our achievements during the past year. By the end of 1998 we saw the emergence of our three areas of focus – companion animal health, radiopharmaceuticals and Canadian pharmaceuticals – as profitable and contributing divisions of the Company. These divisions are now supported by a fully integrated state-of-the-art manufacturing facility.

Leveraging our most recent acquisitions has added new markets that extend beyond Canada and a new range of products and pipeline to propel our future growth and development.

Draximage Inc., our radiopharmaceutical division, has performed exceedingly well since acquisition and holds considerable promise. This is not surprising since radiopharmaceuticals is one of the fastest growing diagnostic fields in the world. By the end of 1998, Draximage's clot imaging product, Fibrimage®, was well into Phase II studies, followed by Somatoscan™ in Phase I, for diagnosing certain cancers. Other new agents for kidney function and heart attack imaging are preparing to enter clinical trials.

DRAXIS Pharma Inc., our manufacturing facility, was acquired this past year. Once we complete our capital improvements, this facility will meet the manufacturing requirements for Draximage's existing and developing products. The plant also has the capability to serve the needs of a growing list of major pharmaceutical clients including the highly specialized manufacturing technology required for sterile and sterile lyophilized products.

Alliances have been an important part of our growth and success. One of our most important alliances is with Pfizer Inc. for the global marketing and selling of our prescription companion animal health product – Anipryl®. In 1998 Anipryl® became the first and only drug approved by the U.S. Food and Drug Administration to treat canine Cognitive Dysfunction Syndrome; the Company is now poised to strongly participate and benefit in the emerging companion animal health marketplace, estimated at $3.5 billion.

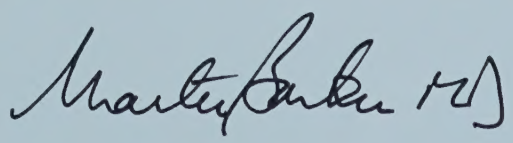
We leveraged our strengths in Canadian marketing and selling operations by combining our neurology and dermatology units into a single division, having the strength and critical mass needed to maintain our leadership position in drugs for the treatment of Parkinson's disease. Our product portfolio includes Alertec™, recently approved in Canada for the treatment of narcolepsy. In dermatology, SpectroJel® continues to hold the position of the leading dermatology product in its category in Canada.

Leveraging our research and development capabilities has so far brought Anipryl® to regulatory approval for two indications in three countries and helped advance Fibrimage®, Amiscan® and Somatoscan™ in their clinical trials. Our own research division completed all of the Phase III clinical trials that contributed to the recent approval of Alertec™ and adapted certain regulatory files from Mylan Pharmaceuticals Inc. for Canadian submission.

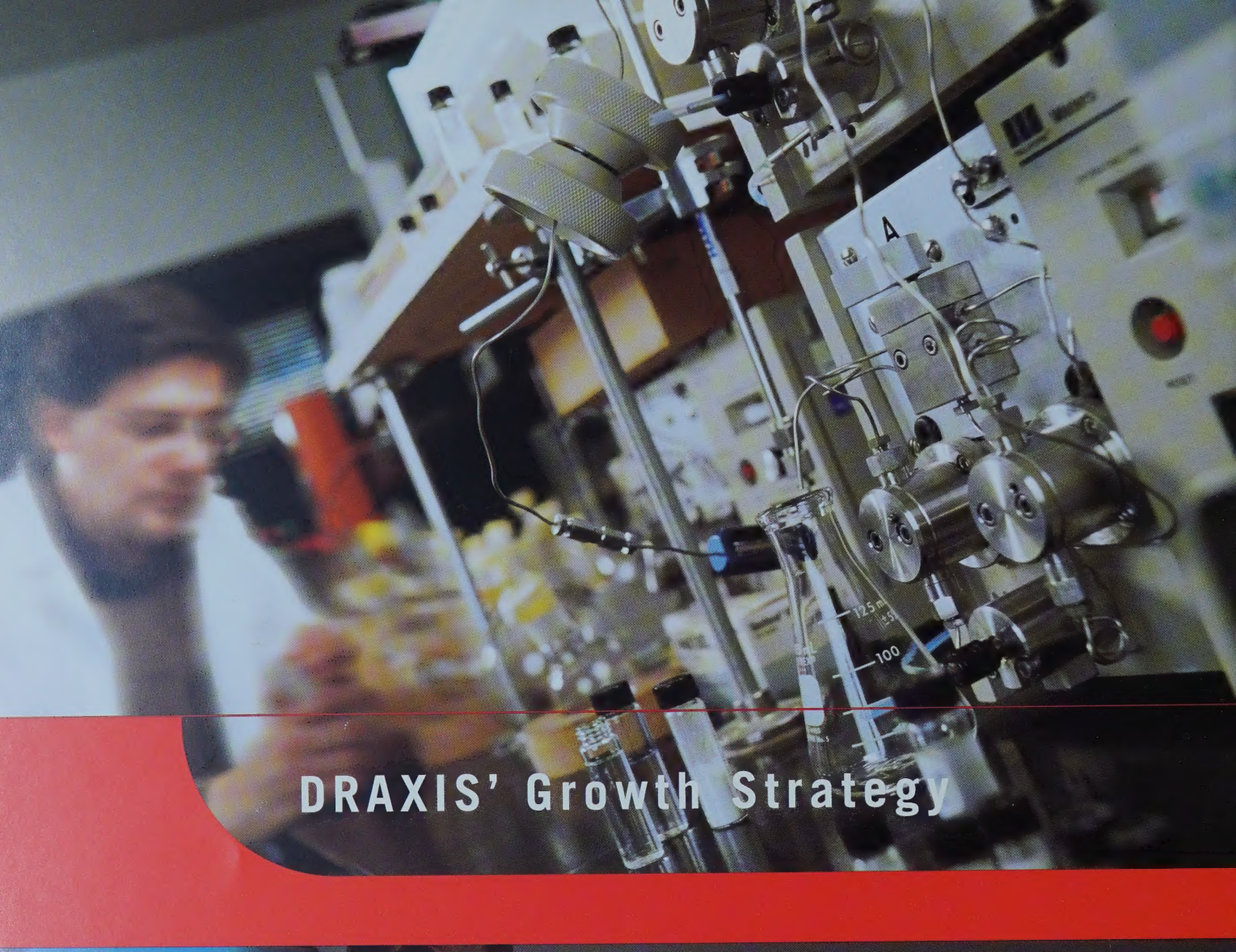
Not everything was positive last year. It became necessary to modify our strategies when the launch of SpectroDerm® in the United States became too costly to sustain in the context of our shift to positive earnings in 1999. Also our founder, long separated from the Company, sponsored a series of initiatives aimed at undermining the Company and its management. These activities included a dissident proxy circular and a lawsuit by a former consultant. Our share price has not yet responded in ways that we believe reflect the inherent value of the Company and its growth and earnings prospects.

Leveraging our strengths has allowed DRAXIS to become the strongest it has ever been. Leveraging the energy and commitment of all 200 of our employees will allow us to continue to grow even stronger.

I would like to thank our shareholders, employees, venture partners, licensors, and most of all, our customers for their ongoing support of our Company. We look forward to continued success in 1999.



Dr. Martin Barkin
PRESIDENT & CEO
April 30, 1999



DRAXIS' Growth Strategy

To focus on

specialty pharmaceutical markets

where competitive advantage can be developed and sustained.

To pursue

global opportunities

leveraging alliances with business partners when appropriate.

To

diversify business risk

over a number of pharmaceutical platforms.

To support

late stage research and development

projects with near term market potential.

To capitalize on opportunities associated with being a

fully integrated

pharmaceutical enterprise.

Leveraging Alliances

"Strategic partnerships with international pharmaceutical companies enable DRAXIS to synergistically leverage its resources. The Company's alliance with Pfizer is a case in point."

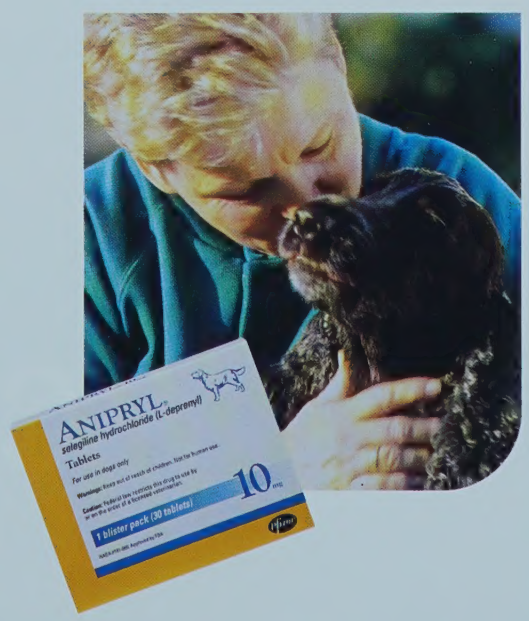
DRAXIS is powering its growth by leveraging key relationships. Strategic alliances and joint ventures with pharmaceutical companies such as Eli Lilly Canada Inc., Mylan Pharmaceuticals Inc., and Laboratoire L. Lafon are expanding DRAXIS' product line-up, strengthening its manufacturing capabilities, and opening doors to promising new markets. Over the near term, no alliance holds greater potential than the alliance with Pfizer Inc. for the marketing of Anipryl®.

Anipryl® is a unique veterinary drug used to treat canine Cognitive Dysfunction Syndrome (CDS) and Cushing's disease. It is the first drug approved for either indication by the U.S. Food and Drug Administration. Currently, it has been approved for both uses in the United States, Canada and Australia.

The alliance with one of the world's leading pharmaceutical companies takes Anipryl®, which was developed by DRAXIS, into global markets. Pfizer launched Anipryl® in the United States for its major indication, canine CDS, in February of 1999, supported by a high impact, direct-to-consumer advertising campaign. Built around network television commercials, print advertising in a number of the country's most-read magazines, and a national tour by high profile veterinarians, the campaign takes the Anipryl® message directly to dog owners and veterinarians across the United States.

Under the terms of the agreement, signed at the end of 1997, DRAXIS will supply Anipryl® to Pfizer and will continue to pursue additional regulatory approvals for the drug in other jurisdictions. Pfizer will pay royalties on the worldwide sales of Anipryl®, compensate DRAXIS for achieving specified milestones, and collaborate with DRAXIS on further Anipryl® research. As part of this research collaboration the Company has fully enrolled a national U.S. clinical trial to test nine further indications for Anipryl®. As regulatory hurdles are cleared in markets around the world, Anipryl® sales, and the royalties paid to DRAXIS, will continue to grow. Combined with milestone payments from Pfizer, these revenues will have a substantial positive impact on DRAXIS' bottom line.

Moira Liskovec, Elliott City, MD
"Anipryl® definitely was the answer for us, without it I don't believe that we would have Holly here now."



Leveraging Acquisition

"DRAXIS is drawing on its exceptional human and technological resources to tap the enormous potential of nuclear medicine."

Strategic acquisitions have enabled DRAXIS to become a full service, integrated enterprise and expand its presence in selected international specialty markets. The Company now has extended product lines and expanded manufacturing and sales capabilities. Strategic acquisitions have been, and will remain, one of the Company's principal tools for building profitable growth.

One of the Company's most significant acquisitions was the 1997 purchase of the radiopharmaceutical division of Merck Frosst Canada Inc., to form Draximage Inc. Draximage specializes in the discovery, development, manufacture and marketing of diagnostic and therapeutic products for use in nuclear medicine. It is the only fully integrated Canadian manufacturer of radiopharmaceutical products, and a leader in the medical application of nuclear technology.

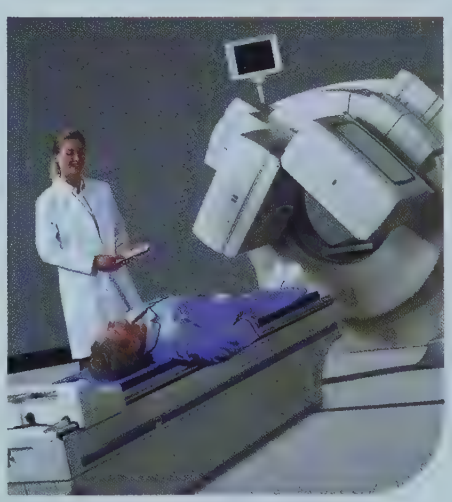
Draximage takes DRAXIS to the forefront of an advancing high tech field. Draximage markets both hot radioactive products and lyophilized (freeze dried) sterile products. These capabilities, along with an exceptional product development pipeline, bring DRAXIS extraordinary growth potential. Moreover, Draximage's expertise in R&D, regulatory affairs, manufacturing and marketing significantly adds to DRAXIS' knowledge base.

To enable Draximage to capitalize on its growth opportunities, DRAXIS is building a state-of-the-art lyophilization chamber, and a new hot lab at its manufacturing facility in Kirkland, Québec. Advanced, automated equipment will increase production capacity while reducing unit labour costs. Lyophilized production is expected to commence in mid-2000.

Draximage is also developing new products to capitalize on emerging areas of nuclear medicine. Fibrimage®, an imaging agent that brings advanced levels of sensitivity to the detection of deep vein thrombosis, has passed Phase I clinical trials and is expected to conclude Phase II trials by June 1999. The Company anticipates completion of clinical trials, and introduction to the market by 2001.

Consistently profitable, Draximage had its most successful year in 1998 as a DRAXIS company.

Nuclear medicine imaging technology, one of the fastest growing areas of health care.



Courtesy of Picker International

Leveraging Market Strength

"DRAXIS is building on its marketing and sales capability and reputation for quality to expand its strong position in dermatology and neurology."

DRAXIS is a key player in certain Canadian specialty markets. The Company's SpectroJel® is the leading non-soap skin cleanser in Canada. Its neurological drugs, including Permax®, licensed from Eli Lilly Canada Inc., continue to hold a dominant position in Parkinson's disease despite increasing competition. Bringing these products to the marketplace has created a successful, effective marketing network – an asset that will support further growth opportunities.

In 1998, DRAXIS successfully completed the assimilation and integration of the SpectroPharm organization, and launched a number of marketing initiatives for its dermatology products. The "teen pack" retail program, run in conjunction with Wal-Mart, was especially well received by the market.

The Company's attempts to bring its dermatology line to the U.S. market were less successful. Its detailing program was well accepted by dermatologists and DRAXIS attracted product representation in 40% of U.S. retail drug locations, but slow initial sales made supporting these retail channels very costly. Consequently, the Company withdrew its U S. medical sales force. Instead, it has initiated a marketing and sales program to capitalize on the awareness generated by the Company's 1998 marketing programs. U.S. consumers and dermatologists can now purchase SpectroDerm® directly from DRAXIS over the telephone (1-888-777-3376) or through our integrated e-commerce system at www.spectroderm.com.

In Canada, DRAXIS has a strong market position and is well positioned to capitalize on its product pipeline. First among these will be Alertec™ which was approved in March 1999 for the treatment of narcolepsy.

In early 1999, DRAXIS combined its dermatology and neurology divisions into a single marketing organization. Consolidation promises improved operating efficiencies and enables the Company to concentrate on building sales in both product categories. Its Canadian pharmaceutical sales have now reached the critical mass needed to generate profitability in both specialty areas.

SpectroJel®, the leading product in its skin care category in Canada, is now manufactured at the Company's facility in Québec.

Leveraging Production

"Synergies with other DRAXIS businesses, combined with the opportunity to build upon existing contract manufacturing volume, made the acquisition of a leading-edge manufacturing facility a natural fit for DRAXIS. Production volumes are increasing and development of sterile lyophilization capabilities is almost complete."

DRAXIS became a fully integrated pharmaceutical company when it acquired the former Burroughs-Wellcome operating facility in Kirkland, Québec. With capabilities in sterile products, ointments, creams, liquids and solid dosage, DRAXIS is now able to manufacture and distribute many of its own products, and able to offer contract manufacturing services to others.

Along with the facility DRAXIS retained the core management team, maintaining the knowledge and skill base essential for future growth.

Now operating as the Company's manufacturing subsidiary, DRAXIS Pharma Inc. was a natural fit for the corporation. DRAXIS' production requirements for its various specialty areas are expected to bolster production volumes at the plant. DRAXIS Pharma is a modern, fully functioning pharmaceutical manufacturing facility with an excellent history of regulatory compliance, crucial when seeking future regulatory approvals for new products. Over time, all of DRAXIS' internal manufacturing requirements, particularly the specialized sterile lyophilization requirements of Draximage, will be fulfilled at DRAXIS Pharma.

DRAXIS Pharma has embarked on an 18-month upgrading program to transform the facility into a service-oriented, "one-stop shopping" contract manufacturer bringing innovative, quality-based solutions to pharmaceutical customers around the world. Sales programs will build on DRAXIS Pharma's strengths to exploit worldwide demand in profitable specialty product areas, such as sterile and lyophilized manufacturing, currently in short supply. Operating one of the few facilities in Canada capable of manufacturing a wide variety of dosage forms, DRAXIS Pharma is well positioned to attract and develop numerous contract manufacturing opportunities.

The acquisition of the former Burroughs-Wellcome manufacturing facility has transformed DRAXIS into a fully integrated pharmaceutical company.

Leveraging Research & Development

"DRAXIS is leveraging its expertise in R&D and regulatory affairs to bring promising specialty products into Canadian and international markets."

Bringing new products to market takes exceptional skill, specific scientific knowledge and complex organizational know-how. DRAXIS has proven that it has the people, resources and commitment to meet this challenge.

Diligent and creative R&D efforts resulted in the development of Anipryl®, our companion animal health pharmaceutical product, now approved to treat two indications in Canada, United States and Australia. In collaboration with the Company's marketing partner for Anipryl®, Pfizer Inc., DRAXIS is continuing development work on Anipryl® currently focused on obtaining additional jurisdictional approvals as well as investigating possible other uses for this drug.

In early 1999, the Company obtained Canadian regulatory approval for Alertec™ (modafinil) for the treatment of narcolepsy, a sleep disorder. DRAXIS holds the Canadian rights to modafinil under license from Laboratoire L. Lafon, a French pharmaceutical company. As a result of Phase III clinical trials conducted by the Company, more than 100 Canadian physicians and 450 patients were introduced to Alertec™, which is scheduled for launch in Canada during the second quarter of 1999.

Over the next few years, the bulk of the Company's R&D budget will be directed towards advancing products within the Draximage pipeline. Powerful new imaging agents are under development including Fibrimage®, Amiscan® and Somatoscan™. Fibrimage®, for the detection of thrombi, is expected to commence Phase III trials during 1999. Amiscan®, for the detection of myocardial infarction, and Somatoscan™, for the detection of certain cancers, are both expected to complete Phase I trials during 1999.

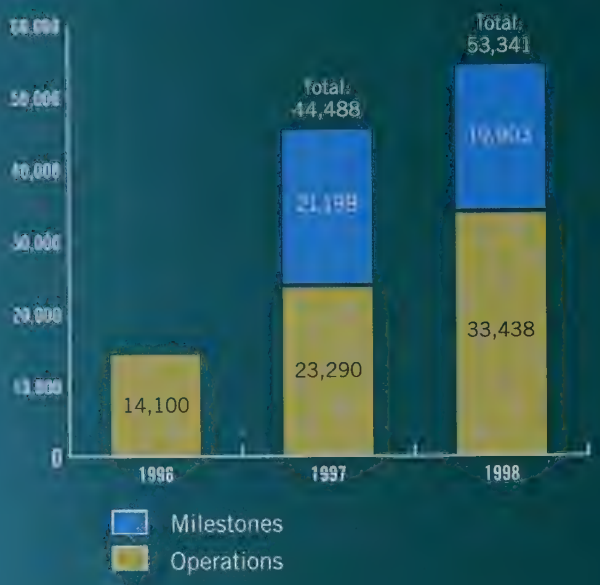
With state-of-the-art R&D facilities, many promising drugs in late stage development and the proven regulatory experience necessary to bring these products to market, DRAXIS is poised to reap strong future benefits.

DRAXIS Pharma Inc. is equipped with sterile manufacturing capabilities, currently in high demand.

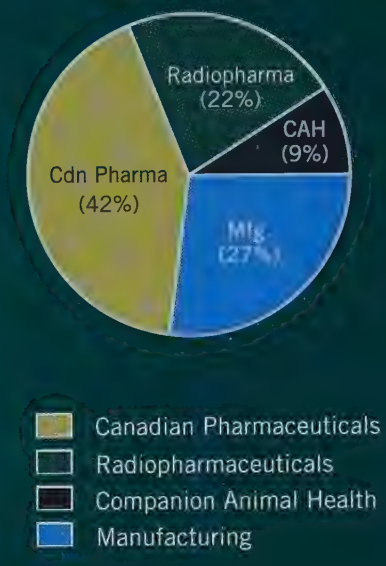
DRAXIS at a Glance

TOTAL REVENUE

CDN$000s



1998 OPERATING REVENUE BY BUSINESSES



PRODUCT PIPELINE

TODAY'S PRODUCTS		TOMORROW'S PRODUCTS
► Anipryl®	COMPANION ANIMAL HEALTH ANIPRYL	► Anipryl formulations ► Anipryl indications
► Hot (Canada) ► Cold (Global)	RADIOPHARMACEUTICALS DRAXIMAGE	► Fibrimage ► Amiscan ► Somatoscan ► ANP
Eldepryl®, Non-Sedating Amines™, Primaxin®, Bretylol®	NEUROLOGY (CANADA) DRAXIS PHARMACEUTICA	► One Alpha D_2 ► Paclitaxel ► Others Mylan ► Ovarex
► Rx ► Non-Rx	DERMATOLOGY SPECTROPHARM	► OTC formulations ► Levulan® (Canada)

PC P1 P2 P3 File

* USA also

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the related Notes to the Consolidated Financial Statements.

The discussion and analysis for 1997 and 1996 has been modified relative to the presentation contained in the 1997 Annual Report in order to conform to the 1998 presentation which is more representative of DRAXIS' current business organization and financial presentation.

1998 COMPARED WITH 1997

Revenues

1998 product revenues, excluding milestone payments, for DRAXIS Health Inc. ("DRAXIS" or the "Company") of $33,438,000 represented an increase of 43.6% over 1997. When milestone payments are included for both years, total 1998 revenues amounted to $53,341,000, an increase of 19.9% over 1997.

DRAXIS Pharmaceutica – Revenues for this business unit now include SpectroPharm dermatology operations which had previously been reported separately. 1998 revenues of $14,095,000 represented a decline of $2,120,000 from 1997 levels primarily due to increased generic competition for the Company's two selegiline products, *Eldepryl®* and *Novo-Selegiline*. 1998 sales of *Permax®* were largely unchanged over 1997 levels. Canadian dermatology revenues declined slightly in 1998 versus 1997 due to the impact of non-recurring revenues in 1997 associated with the initial broadening of Canadian distribution of the SpectroPharm line of products. Revenues were favourably affected in 1998 by the commencement of sales of *SpectroDerm®* in the United States.

Draximage – Revenues of $7,508,000 during 1998 increased by $4,385,000, or 140.4% over 1997 levels which included part-year revenues from July 1, 1997 onward, the date of acquisition by DRAXIS. Revenues for the six month period ended December 31, 1998 of $3,873,000 increased by 24.0% compared to the corresponding period in 1997 due to general business growth as well as $400,000 of non-recurring revenue.

Anipryl® – Revenues in this business unit consist of revenues from the sale of *Anipryl®* tablets to Pfizer Inc. ("Pfizer") and royalty payments from Pfizer based upon their sales of *Anipryl®*. 1998 revenues of $2,879,000 compare with $3,952,000 achieved during 1997. 1997 levels were elevated due to the initial sale of all DRAXIS' inventory coincident with the concluding of the global licensing arrangement with Pfizer in December 1997.

DRAXIS Pharma – Pharmaceutical contract manufacturing revenues commenced on May 1, 1998 following the acquisition from a subsidiary of IVX BioScience, Inc., Baker Cummins Inc., of the former Burroughs-Wellcome Canadian manufacturing facility. 1998 revenues for this unit totalled $8,956,000.

Milestone Revenues – In December 1998 *Anipryl®* was approved by the U.S. Food and Drug Administration ("FDA") for the control of clinical signs associated with canine Cognitive Dysfunction Syndrome ("CDS") and by the Australian National Registration Authority for the control of clinical signs associated with CDS and for the control of clinical signs associated with uncomplicated canine pituitary-dependent hyperadrenocorticism. The receipt of those two approvals entitled DRAXIS to receive US$13 million in milestone payments from Pfizer which were received in January 1999.

Cost of Sales

Cost of sales in 1998 represented 54.8% of revenues, excluding milestone income; this compares with 32.4% in 1997. The increase is predominantly due to the inclusion, during 1998, of the results of DRAXIS Pharma Inc. from its current mix of contract manufacturing.

Selling, General and Administration Expenses

1998 selling, general and administration expenses ("SGA") of $17,854,000 represented a decrease of $1,927,000 or 9.7% as compared to 1997. Versus 1997, SGA expenses in DRAXIS Pharmaceutica declined substantially in concert with the expected reduction in revenue levels. SGA expenses at Deprenyl Animal Health, Inc. ("DAHI") were lower in 1998 versus 1997 as a result of reduced internal activity subsequent to the licensing arrangement entered into with Pfizer. Offsetting these reductions was the inclusion in 1998 of a full year's expenses for Draximage and eight months of expenses for DRAXIS Pharma Inc.

Restructuring Charges

Pursuant to a change in business strategy in late 1998, DRAXIS discontinued the detailing of *SpectroDerm*® to dermatologists in the United States while continuing to explore options to maximize this product's future value to the Company, including partnering opportunities with established marketing and sales organizations. The Company took a restructuring charge of $2,500,000 in 1998 for the implementation of this initiative.

Research and Development

Research and development ("R&D") expenditures in 1998 increased to $3,242,000 from $2,271,000 in 1997 largely as a result of the incurrence of a full year of R&D effort at Draximage, versus six months in 1997.

Investment tax credits ("ITCs") amounted to 11.8% of gross R&D expenditures in 1998 as compared with 12.3% in 1997.

Depreciation and Amortization

1998 depreciation and amortization ("D&A") expense of $4,087,000 represented a decrease of $1,431,000 mainly attributable to a reduction in amortization relating to *Anipryl*® intangible assets, which were written off at the end of 1997. Offsetting this was additional D&A relating to DRAXIS Pharma Inc., and the full year effect relating to the acquisitions of Spectro-Pharm Inc. ("SpectroPharm") and Draximage.

Financial

Interest income of $711,000 for 1998 compares with $654,000 earned during 1997.

Financing expense of $716,000 for 1998 compares with $1,092,000 during 1997. 1998 amounts include the full year effect of interest charges on debt financing incurred in conjunction with the acquisition of Draximage and interest expense relating to the term loan regarding the acquisition of DRAXIS Pharma Inc.

Income Taxes

The Company recorded an income tax provision of $2,660,000 or 34.5% of pre-tax earnings for 1998. The 34.5% rate is a blended rate which is affected by the Company having operations in different provinces, as well as in the United States. Tax recoveries have been set up for situations where management expects future income to be sufficient to use up accumulated operating losses that apply in certain jurisdictions.

Net Income (Loss)

Net income for 1998 of $5,045,000 compares with a net loss for 1997 of $20,923,000, an improvement of $25,968,000. The main factor affecting this change in income was the impact of the licensing arrangement for *Anipryl*®. During 1997, the first Pfizer milestone was received and when offset against the loss on disposal of the DAHI intangible assets yielded a pre-tax loss of $6,756,000. In 1998, additional Pfizer milestone income of $19,903,000 pre-tax was recorded. Taken together these two items total $26,659,000 on a pre-tax basis, thereby accounting for the bulk of the year-over-year net income improvement.

Liquidity and Capital Resources

Cash and cash equivalents at December 31, 1998, totalled $3,676,000 a decrease of $16,586,000 over the balance at December 31, 1997. Included in accounts receivable at December 31, 1998 was $19,903,000 related to the *Anipryl*® milestones; this amount was received in January 1999.

Major uses of funds during 1998 included $15,818,000 on the acquisition of DRAXIS Pharma Inc. Capital expenditures totalled $6,034,000 with the bulk of the spending directed towards construction of lyophilization capability and specialized laboratory space at DRAXIS Pharma Inc., for the benefit of Draximage. $2,000,000 was paid out in December pursuant to the renewal of the *Permax*® license for a further 10 year period.

Incoming funds included $7,214,000 from a bank term loan facility for the financing of the acquisition of DRAXIS Pharma Inc. and $3,018,000 from the issuance of shares associated with the exercise of warrants and options.

Non financial working capital at year end (non-cash current assets minus non-debt current liabilities) increased by $13,526,000 over 1997 levels. Inventories showed an increase of $3,025,000 over 1997 due to the DRAXIS Pharma Inc. acquisition ($2,900,000) plus increased stock of *Anipryl*® inventory. Accounts receivable were up $20,905,000 over

1997 year end levels mainly due to Pfizer milestone payments receivable of $19,903,000. Current liabilities of $16,329,000 increased $10,275,000 over 1997 levels due mainly to DRAXIS Pharma Inc. ($3,200,000), a portion of the U.S. dermatology restructuring accrual of $2,500,000, and a $4,620,000 increase in income taxes payable.

In addition to its cash and cash equivalent holdings at December 31, 1998, DRAXIS held approximately 237,000 of the issued and outstanding common shares of Bone Care International, Inc. ("BCII") with a carrying value of $691,000 and a market value at year end of approximately $4,215,000. In connection with a proposed public financing by BCII, the Company entered into a lock-up agreement with BCII's underwriters pursuant to which the Company agreed not to dispose of its common shares of BCII for 90 days following the date of the final prospectus for the proposed public financing. This lock-up agreement expired on September 30, 1998.

As at December 31, 1998 the Company had long-term debt of $17,417,000 made up of: $4,203,000 in two unsecured non-interest bearing notes held by Merck Frosst Canada Inc. ("Merck") related to the acquisition of Draximage and $7,214,000 of a term loan facility regarding the acquisition of DRAXIS Pharma Inc. In addition, the Company had $6,000,000 of future unsecured license obligations to Eli Lilly Canada Inc. related to the license renewal of *Permax®* in 1998.

1997 COMPARED WITH 1996

Revenues

1997 product revenues for DRAXIS of $23,290,000 increased by $9,190,000 or 65.2% as compared to the previous fiscal year.

DRAXIS Pharmaceutica – Sales of pharmaceutical products in 1997 increased by $2,395,000 or 17.3%. Combined sales of the Company's two selegiline drugs, *Eldepryl®* and *Novo-Selegiline*, declined by $2,041,000 to $6,860,000 in 1997 from $8,901,000 in 1996 due to increased competition which resulted in lower prices for *Novo-Selegiline* and lower unit sales for *Eldepryl®*. The decline in selegiline sales was partially offset by increased sales of *Permax®*. 1996 sales also included sales of the drug *Prolopa®* and a payment received by the Company associated with the early return of the Canadian marketing and selling rights for this drug to Hoffmann-La Roche Limited in December 1996. Dermatology product sales increased $4,455,000 from $864,000 in 1996 to $5,319,000 largely as a result of the acquisition of SpectroPharm in February 1997.

Draximage – Sales of Draximage commenced effective July 1, 1997 following the acquisition of the radiopharmaceutical division of Merck. 1997 sales for this unit totalled $3,123,000.

Anipryl® – Sales increased $3,672,000 from $280,000 in 1996 to $3,952,000 in 1997 as a result of the commencement of sales of *Anipryl®* in the United States, initial inventory sales of *Anipryl®* to Pfizer in the fourth quarter of 1997 and increased sales of *Anipryl®* in Canada.

Milestone Revenues – In December 1997, DRAXIS entered into a global alliance with Pfizer with respect to *Anipryl®* coincident with which DRAXIS received its first milestone payment of $21,198,000.

Cost of Sales

Cost of sales increased from 22.0% of sales in 1996 to 32.4% in 1997 due to a significant change in product mix which occurred during the year. Sales of the relatively higher margin products in DRAXIS Pharmaceutica and DAHI declined from 93.8% of total revenues in 1996 to 63.8% in 1997 with a corresponding increase in the proportion of relatively lower margin sales of SpectroPharm and Draximage products.

Selling, General and Administration Expenses

SGA expenses increased $4,745,000 to $19,781,000 in 1997 as a result of the acquisition of SpectroPharm and the subsequent expansion of marketing activities in this business unit in Canada and the United States, the acquisition of the radiopharmaceutical division of Merck and the consolidation of DAHI's operating expenses for all of 1997 as compared to only one month in 1996. DAHI's 1997 operating expenses increased over 1996 as a result of higher marketing and selling costs in preparation for and following the launch of *Anipryl®* in the United States.

Sale of Product Rights

The alliance with Pfizer with respect to *Anipryl*® was accounted for as a disposition of the Company's interest in *Anipryl*® which triggered a writedown of DRAXIS' full carrying value of *Anipryl*® of $27,954,000.

Research and Development

R&D expenditures in 1997 increased to $2,271,000 from $1,444,000 in 1996 largely as a result of the acquisition of the radiopharmaceutical division of Merck and the consolidation of DAHI's R&D expenditures for all of 1997 as compared to only one month during 1996.

ITCs declined from 20.5% of R&D expenditures in 1996 to 12.3% in 1997 largely as a result of the inclusion of DAHI's R&D expenditures, which are not eligible for Canadian R&D tax credits.

Depreciation and Amortization

D&A expense increased by $3,823,000 to $5,518,000 in 1997 as compared to $1,695,000 in 1996. This increase was largely attributable to increased amortization expense associated with the completion of the DAHI share exchange transaction in November 1996, the commencement of amortization of goodwill incurred on the acquisition of SpectroPharm in February 1997 and D&A charges which commenced following the acquisition of the radiopharmaceutical division of Merck effective July 1, 1997.

Financial

Interest income declined by $848,000 to $654,000 for the year ended December 31, 1997 as compared to the previous year principally as a result of lower cash balances during the year following the acquisition of SpectroPharm and the funding of operating losses.

Financing expense increased from nil in 1996 to $1,092,000 in 1997 as a result of interest and related charges associated with the $13,977,000 of debt financing incurred in conjunction with the acquisition of the radiopharmaceutical division of Merck prior to the repayment of $10,000,000 of such financing in December 1997.

Other Income (Expense)

In 1997 the Company wrote off the $1,277,000 carrying value of goodwill and related other intangibles associated with its interest in research into the development of a prescription pharmaceutical based on a liposomal delivery system following the decision to discontinue work in this area. Also, in 1997 the Company wrote off the $1,282,000 carrying value of its interest in Stëf International Corporation ("Stëf"). See "Equity Share of Loss in Affiliated Companies – Stëf International Corporation."

In 1996, the Company disposed of its remaining interest in DUSA Pharmaceuticals Inc. resulting in a pre-tax gain of $6,001,000. In addition, during the year the Company disposed of its remaining interest in Medicis Pharmaceutical Corporation for a pre-tax gain of $110,000.

Income Taxes

For the year ended December 31, 1997, DRAXIS recorded a recovery of income taxes of $593,000 based on a loss before income taxes and equity share of loss of affiliated companies of $21,288,000 as compared to a recovery of $318,000 on income before income taxes and equity share of loss of affiliated companies of $725,000 in 1996. The major items included in the loss before income taxes and equity share of loss of affiliated companies in 1997 but not recognized for income tax purposes include: DAHI patents and trademarks amortization; goodwill amortization arising from the acquisition of SpectroPharm; the writedown of goodwill associated with the Company's interest in liposome research and the write-off of the Company's investment in Stëf.

Equity Share of Loss of Affiliated Companies

Deprenyl Animal Health, Inc. – In November 1996, shareholders of both DRAXIS and DAHI approved the acquisition by DRAXIS of all the shares of DAHI not already owned by DRAXIS through a mandatory share exchange. Effective November 27, 1996, DAHI became a wholly owned subsidiary of DRAXIS. Accordingly, the results for the fourth quarter of 1996 include the results for DAHI on a fully consolidated basis from November 27, 1996 through December 31, 1996. Prior to November 27, 1996, DAHI's results were accounted for by using the equity method and were therefore included as part of DRAXIS' equity

share of loss of affiliated companies. As a result of the DAHI transaction, DRAXIS recorded an increase in patents, licenses and other deferred charges of $27,137,000.

The Company's 1996 equity share loss of affiliated companies includes a reversal of $697,000 of deferred taxes which had been applied to dilution gains associated with common share offerings of DAHI in 1990 and 1991.

Stëf International Corporation – In August 1996, the Company transferred its ownership interest in the joint venture Innovative Health Systems ("IHS") to Stëf. Prior to the transaction, the Company converted its loans and promissory notes due from IHS to a capital contribution, thereby increasing its ownership interest to 92%. The Company's ownership interest in IHS was then transferred to Stëf in exchange for 3,000,000 common shares valued at $1,350,000 and a note receivable for $728,000. The note bears interest at the bank prime rate plus 1% per annum and is payable quarterly with principal due August 6, 2001. All amounts due may be converted at the option of the Company into common shares of Stëf at $0.75 per share. Concurrently, the Company purchased from Stëf's treasury 1,000,000 units for $500,000. Each unit consisted of one common share and 0.87 warrants. Each warrant is exercisable for one common share at $0.75 per share if exercised by July 31, 1998 and at $1.00 per share if exercised by July 31, 1999.

The Company recorded its initial investment in Stëf based on the carrying value of its interest in IHS plus the amount of its additional investment as described above.

In light of a sharp decline in the market trading value of Stëf's shares and continuing operating losses, DRAXIS concluded in 1997 that there had been a permanent impairment in the value of its interest in Stëf and accordingly wrote off the full carrying value of its investment in Stëf of $1,282,000.

Net Income (Loss)

The 1997 net loss of $20,923,000 compares with the 1996 net loss of $166,000. 1996 results included a $6,111,000 gain on sale of securities, whereas 1997 results reflect a $6,756,000 loss on the sale of product rights. Taken together, these two items account for a pre-tax income swing of $12,867,000. In addition, D&A expense increased $3,823,000 over this period.

Liquidity and Capital Resources

Cash and cash equivalents at December 31, 1997, totalled $20,262,000 a decrease of $5,566,000 over the balance at December 31, 1996, of $25,828,000.

Major uses of cash in 1997 included the acquisitions of SpectroPharm ($9,114,000) and the radiopharmaceutical division of Merck ($11,855,000), the early repayment of debt incurred with the radiopharmaceutical acquisition ($10,000,000), investment in net working capital ($2,951,000) and the funding of operating losses. Major sources of cash in 1997 included proceeds from the *Anipryl*® licensing agreement ($21,198,000), debt incurred in conjunction with the radiopharmaceutical acquisition ($13,977,000) and the exercise of warrants ($3,847,000) and options ($1,554,000).

Non financial working capital at December 1997 increased by $2,883,000 over 1996 levels. Approximately one-half of this increase was due to increased dermatology product inventory, pursuant to the acquisition of the SpectroPharm business in early 1997. The balance of the increase was mainly due to an increase in accounts receivable due to sales growth experienced in 1997.

In addition to its cash and cash equivalent holdings at December 31, 1997, DRAXIS held approximately 237,000 of the issued and outstanding common shares of BCII with a carrying value of $691,000 and a market value at December 31, 1997 of $3,320,000.

As at December 31, 1997, the Company had debt of $3,977,000, which represented the aggregate net present value of two unsecured non-interest bearing notes held by Merck.

SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP

DRAXIS, as a Canadian company, follows Canadian generally accepted accounting principles ("GAAP") in reporting its financial results. The differences in the reported results that would have resulted from using United States as opposed to Canadian GAAP are summarized in Note 21 to the 1998 consolidated financial statements.

OUTLOOK

Operations

Excluding the impact of milestone payments, management expects that 1999 consolidated revenues and Earnings before Interest, Taxes, Depreciation & Amortization ("EBITDA") will improve over 1998 levels.

DRAXIS Pharmaceutica – Revenues in this business unit are expected to show limited growth in 1999 with initial sales of *Alertec*™ (following its approval in Canada in early 1999) offsetting the decline in sales of *Eldepryl*® and *Novo-Selegiline*.

EBITDA for this unit in 1999 is expected to improve significantly over 1998, in large part due to restructuring of the Company's U.S. dermatology operations.

Draximage – With Draximage now operating at maximum capacity, 1999 revenues are expected to remain approximately at 1998 levels, which included $400,000 of non-recurring revenues. This division will be fully relocated into the DRAXIS Pharma Inc. facility by June 1999.

1999 EBITDA is expected to approximate 1998 levels.

Anipryl® – *Anipryl*® product sales and royalty income resulting from U.S. sales are expected to increase substantially in 1999 over 1998 levels as a result of the approval of *Anipryl*® for the control of clinical signs associated with CDS and the subsequent commencement of the direct-to-consumer marketing campaign initiated by Pfizer in early 1999.

EBITDA in 1999 is expected to show strong improvement over 1998.

DRAXIS Pharma – During 1998 only eight months of revenues at DRAXIS Pharma Inc. from contract manufacturing were included, whereas a full year's results will accrue during 1999.

DRAXIS Pharma is expected to contribute negatively to operations in 1999, although capacity utilization is expected to increase over the course of the year.

Milestone Revenues – The Company is continuing to pursue regulatory approvals for *Anipryl*® in various other jurisdictions. No significant approvals or related milestones are anticipated during 1999.

Liquidity and Capital Resources

Management expects that there will be sufficient liquidity to fund operations during 1999. In addition to existing cash reserves, expected sources of liquidity include the full draw down of the term loan facility, certain Government of Québec financing associated with operations at DRAXIS Pharma Inc., and proceeds from the expected sale of DRAXIS' holdings in BCII.

The Company is evaluating the possibility of obtaining additional equity financing at DRAXIS Pharma Inc. from a financial partner. Should such a transaction be completed, the Company's capital commitment to DRAXIS Pharma Inc. would be significantly reduced and future profits and losses shared.

1999 working capital levels are expected to remain substantially unchanged over 1998.

The Company follows a policy of investing its surplus cash resources in high quality, liquid, short-term commercial paper and government treasury bills. There are no restrictions on the flow of these funds nor have any of these funds been committed in any way at this time. However, there are certain standard financial liquidity ratio requirements pursuant to the term loan facility that technically might restrict the free flow of funds from DRAXIS Pharma Inc. to the Company.

D&A expense will increase in 1999 relative to 1998 due to the full year effect of D&A at DRAXIS Pharma Inc., plus the commencement of amortization of license fees regarding the renewal of *Permax*®.

Net financial items are expected to be negative in 1999 due to increased interest expense pursuant to the full utilization of the term loan facility.

Research and Development

In 1999, R&D activities will continue to be focused on Draximage's radiopharmaceutical pipeline and *Anipryl*®, the latter in conjunction with Pfizer. Product line extensions are also being investigated for the SpectroPharm franchise.

The Company has applied for Canadian regulatory approval for *One Alpha* D_2 and certain other products, including

Mylan's formulation of paclitaxel, a cancer drug. Revenues from these products are expected to commence after receiving regulatory approvals.

Risks and Uncertainties

The following summarizes the major risks and uncertainties facing the Company:

Generic Competition – Pursuant to amendments to Canada's Patent Act, brand name pharmaceutical products have active ingredient protection for a period 20 years from the application date of the patent in Canada. After that period of time, the active ingredient may be produced by generic competitors, having the effect of severely reducing both revenues and margins for the affected products. DRAXIS reduced its vulnerability to generic competition by entering into a distribution alliance with Novopharm Limited in December 1993. This allowed DRAXIS to distribute its own, lower-margin generic version of *Eldepryl®* called *Novo-Selegiline*, which has surpassed *Eldepryl®* in sales.

The Regulatory Process – Regulatory agencies such as the Canadian Health Protection Branch ("HPB") and the FDA are charged with ensuring the safety of pharmaceutical products. As such, there is a rigorous process of review prior to any new drug being approved for sale in the marketplace. Among other things, the regulators perform quality control, chemical and toxicology testing, review clinical and pre-clinical data, perform various bio-statistical tests and ensure that labeling and product monographs are in order. On average, it takes approximately 24 months for approvals to be obtained subsequent to a submission being filed with the regulators. However, there is no certainty that approvals will be necessarily obtained within the timeframes as specified above.

Pharmaceutical manufacturing facilities are also subject to strict quality control standards including current Good Manufacturing Practices ("cGMP") and FDA requirements. Production processes within a facility are subject to one-time validation testing, as well as periodic review. Failure to meet standards can result in the imposition of penalties.

The Company's Strategy of Diversification – Due to the inherent risks of genericization of *Eldepryl®*, the Company embarked on a strategy of diversification, thereby effectively spreading business risk among a number of business platforms. Over the past two years, the Company has made a number of strategic acquisitions, and has entered into strategic business partnerships. The identification of business opportunities is a long and difficult process and success is never guaranteed.

Alliance with Pfizer – In December 1997, the Company entered into a global licensing arrangement with Pfizer regarding *Anipryl®*. Prior to entering into this arrangement, the Company carefully considered the option of undertaking the marketing and selling of *Anipryl®* on its own. Management concluded that a licensing arrangement with Pfizer would likely yield better long-term results for the Company. Pfizer, an international organization with a very strong companion animal health business, possesses a knowledgeable and extensive sales force and the financial and other resources necessary to market and promote the product. The financial results from the Company's companion animal health business are very much tied to Pfizer's success with *Anipryl®*.

DRAXIS' Customer Base – The Company is dependent on a number of large multi-national corporations for a significant part of its revenues.

The Nature of Research and Development Activities – For R&D efforts to produce a successful product usually requires a substantial investment, both in time and financial resources. Despite the amount of effort involved, industry experience indicates that the probability of any single product achieving regulatory approval is very low, but increases with each successful phase in the regulatory R&D process. DRAXIS follows a strategy of spending R&D funds on focused areas concentrated on late stage products having near term sales potential.

DRAXIS Pharma Inc. Capital Projects – Completion of construction and the obtaining of timely regulatory approvals for the hot labs being constructed for Draximage and the new lyophilization capability are critical to the long-term success of the Company. Delays on either project could result in an interruption of product supply with material commercial and financial consequences.

Year 2000 Compliance – During the course of its due diligence review prior to the acquisition of the former Burroughs-Wellcome facility, the Company became aware that legacy systems at the facility were not fully Year 2000 compliant. In addition, during the spring of 1998 the Company undertook a detailed review of all its computerized systems and assessed the potential exposure to Year 2000 systems issues which might have had a detrimental impact on the ongoing operations of the business. To address its exposure to Year 2000 systems risks the Company completed and adopted a detailed information systems plan in July 1998.

The central focus of the Company's systems plan is the implementation of a state-of-the-art enterprise resource planning ("ERP") system. Management believes that sufficient financial and human resources have been allocated to the project in order to ensure timely success. A dedicated project team, reporting to a management steering committee, has been constituted which includes internal staff plus systems implementation consultants.

The total cost of this project is estimated at $2.4 million, of which approximately $608,000 had been spent and capitalized during 1998. This project is proceeding on schedule with the system expected to become operational in the third quarter of 1999.

Certain process control systems at DRAXIS Pharma were identified as having potential exposure to Year 2000 risk. Rectification and testing of these systems was substantially completed by December 31, 1998, the aggregate cost of which was less than $100,000. These costs have been expensed as incurred. Additional costs to be incurred during 1999 to complete rectification and testing are expected to be immaterial.

Risks of third party compliance are not directly within the Company's control and are difficult to assess. Accordingly, it is not possible to be certain that all aspects of Year 2000 issues which could affect the Company, including those relating to the efforts of customers, suppliers, or other third parties, will be fully resolved. Starting in late 1998, the Company initiated a process of sending out Year 2000 questionnaires to all its major suppliers and to certain significant business partners in order to assess and mitigate exposure to any major risks in this area. The questionnaire responses are being reviewed and further communication and action with suppliers and/or business partners will be initiated if necessary.

Contingency plans in the event of Year 2000 difficulties being considered by the Company include the stockpiling of raw material inventories, alternate sources of supply of goods and/or services, and an allocation of ERP installation resources on the Company system applications most sensitive to Year 2000 risk.

Law Suit – On March 12, 1998, Dr. Jozsef Knoll issued a Notice of Action against the Company and DAHI. A formal Statement of Claim was filed on May 1, 1998. Dr. Knoll is claiming damages in the amount of US$100 million principally in respect of a royalty based on the net profit from sales of *Anipryl*®, which he claims he is owed based on a December 1990 consulting agreement between himself and DAHI (the "Consulting Agreement"). Dr. Knoll is also seeking relief under the oppression remedy contained in Section 241 of the Canada Business Corporations Act, claiming that the failure of the Defendants to abide by the terms of the Consulting Agreement has been oppressive and has unfairly disregarded his interests. The Company continues to regard all of Dr. Knoll's claims to be entirely without merit. DRAXIS has retained counsel and is vigorously defending the lawsuit.

Except for historical information, the foregoing contains certain forward-looking statements that involve risk and uncertainties, which may cause actual results to differ materially from the statements made. Such factors include, but are not limited to, changing market conditions, clinical trial results, the establishment of new corporate alliances, the impact of competitive products and pricing, the timely development, regulatory approval and market acceptance of the Company's products, and other risks detailed from time to time in the Company's filings with the U.S. Securities and Exchange Commission and Canadian securities authorities.

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of DRAXIS Health Inc. and its affiliated companies and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgement.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data elsewhere in the Annual Report are consistent with the information contained in the financial statements.

In fulfilling their responsibilities, management of DRAXIS Health Inc. and its affiliated companies have developed and continue to maintain systems of internal accounting controls including written policies and procedures and segregation of duties and responsibilities.

Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded, and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through its Audit Committee, consisting of a majority of outside directors. The Audit Committee meets regularly with management and the external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss the financial statements and financial reporting matters.

The financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who have full access to the Audit Committee.

Martin Barkin, MD, FRCSC
President and Chief Executive Officer

Jim Garner, CA
Senior Vice President, Finance and Chief Financial Officer

Mississauga, Ontario
February 10, 1999

AUDITORS' REPORT

To the Shareholders of DRAXIS Health Inc.

We have audited the consolidated balance sheets of DRAXIS Health Inc. as at December 31, 1998 and 1997 and the consolidated statements of operations, (deficit) retained earnings and cash flows for each of the years in the three year period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and cash flows for each of the years in the three year period ended December 31, 1998 in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
February 10, 1999

CONSOLIDATED BALANCE SHEETS December 31

(in thousands of Canadian dollars except share related data)

	1998	1997
ASSETS		
CURRENT		
Cash and cash equivalents	$ 3,676	$ 20,262
Accounts receivable (Note 4)	27,275	6,370
Inventory	6,605	3,580
Prepaid expenses	774	903
	38,330	31,115
Long-term investments (Note 5)	691	691
Fixed assets (Note 6)	18,743	1,776
Goodwill (Net of accumulated amortization: 1998 – $2,087; 1997 – $943)	9,355	10,494
Patents, licenses and other deferred charges (Note 7)	18,032	11,577
Deferred income taxes (Note 8)	5,486	3,206
	$ 90,637	$ 58,859
LIABILITIES		
CURRENT		
Accounts payable and accrued charges	$ 11,928	$ 6,273
Income taxes payable (recoverable)	4,401	(219)
	16,329	6,054
Long-term debt (Note 9)	17,417	3,977
	33,746	10,031
SHAREHOLDERS' EQUITY		
Common stock; unlimited shares authorized, issued and outstanding: 1998 – 32,280,524; 1997 – 31,035,861 (Note 10)	61,232	58,214
Preferred stock; unlimited shares authorized, none outstanding	—	—
Employee participation shares; 2,000,000 shares authorized, issued and outstanding: 1998 – 1,117,500; 1997 – 1,274,500	335	382
Less: loans receivable	(335)	(382)
Warrants (Note 10)	520	520
Contributed surplus	9,701	9,701
(Deficit) retained earnings	(14,562)	(19,607)
	56,891	48,828
	$ 90,637	$ 58,859

See the accompanying notes to the Consolidated Financial Statements

Approved by the Board

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS Years ended December 31

(in thousands of Canadian dollars except share related data)

	1998	1997	1996
REVENUES			
Canadian Pharmaceuticals	**$ 14,095**	$ 16,215	$ 13,820
Radiopharmaceuticals	**7,508**	3,123	—
Companion Animal Health	**2,879**	3,952	280
Manufacturing	**8,956**	—	—
	33,438	23,290	14,100
Milestones	**19,903**	21,198	—
	53,341	44,488	14,100
EXPENSES			
Cost of sales	**18,332**	7,535	3,109
Selling, general and administration	**17,854**	19,781	15,036
Restructuring charges (Note 11)	**2,500**	—	—
Disposal of product rights	**—**	27,954	—
Research and development	**3,242**	2,271	1,444
Investment tax credits on research and development	**(384)**	(280)	(296)
	41,544	57,261	19,293
Income (loss) before the undernoted	**11,797**	(12,773)	(5,193)
Depreciation and amortization	**4,087**	5,518	1,695
Income (loss) from operations	**7,710**	(18,291)	(6,888)
FINANCIAL			
Interest income	**711**	654	1,502
Financing expense	**(716)**	(1,092)	—
	(5)	(438)	1,502
Other (expense) income (Note 12)	**—**	(2,559)	6,111
Income (loss) before income taxes and equity share of loss of affiliated companies	**7,705**	(21,288)	725
Income taxes (Note 13)			
Current	**4,940**	120	1,121
Deferred	**(2,280)**	(713)	(1,439)
	2,660	(593)	(318)
Income (loss) before equity share of loss of affiliated companies	**5,045**	(20,695)	1,043
Equity share of loss of affiliated companies (Note 14)	**—**	(228)	(1,209)
Net income (loss)	**5,045**	(20,923)	(166)
(Deficit) retained earnings, beginning of year	**(19,607)**	1,316	1,482
(Deficit) retained earnings, end of year	**$ (14,562)**	$ (19,607)	$ 1,316
Net income (loss) per share (Note 15) – basic	**$ 0.16**	$ (0.70)	$ (0.01)
– fully diluted	**0.15**	(0.70)	(0.01)
Weighted average number of shares outstanding	**31,950,704**	29,695,743	22,545,890

See the accompanying notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS Years ended December 31

(in thousands of Canadian dollars except share related data)

	1998	1997	1996
Cash flows (used in) from operating activities (Note 20)	**$ (2,317)**	$ 6,858	$ (6,690)
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES			
Purchase of fixed assets	**(6,034)**	(446)	(245)
Business acquisitions, net of cash (Note 2)	**(15,818)**	(20,869)	(23,811)
Issue of warrants	**—**	(520)	—
Increase in other deferred charges, net (Note 7)	**(8,740)**	(277)	(28)
Advances to affiliated companies	**—**	(78)	(1,406)
Proceeds from sale of investments	**—**	—	9,323
Acquisition of subsidiary and affiliated companies	**—**	—	(1,040)
License milestone payments	**—**	—	(1,139)
Net cash flow used in investing activities	**(30,592)**	(22,190)	(18,346)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES			
Exercise of warrants and options (Note 10)	**3,018**	5,401	899
Issue of warrants	**—**	520	—
Proceeds from long-term debt (Note 9)	**13,214**	13,845	—
Repayment of long-term debt	**—**	(10,000)	—
Shares issued on the acquisition of subsidiaries	**—**	—	21,686
Common share offering, net of related expenses	**—**	—	11,562
Other long-term receivables	**—**	—	111
Note payable assumed on acquisition (Note 2)	**91**	—	—
Net cash flow from financing activities	**16,323**	9,766	34,258
Net (decrease) increase in cash and cash equivalents	**(16,586)**	(5,566)	9,222
Cash and cash equivalents, beginning of year	**20,262**	25,828	16,606
Cash and cash equivalents, end of year	**$ 3,676**	$ 20,262	$ 25,828

Cash and cash equivalents comprise cash, commercial paper and treasury bills

See the accompanying notes to the Consolidated Financial Statements

(in thousands of Canadian dollars except share related data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The financial statements differ in certain respects from those prepared in accordance with United States generally accepted accounting principles, as described in Note 21.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries from their date of acquisition.

Long-Term Investments

Prior to November 27, 1996, the Company's investment in Deprenyl Animal Health, Inc. ("DAHI"), a company engaged in the research, development and marketing of pharmaceutical products for veterinary prescriptive applications, was accounted for using the equity method. Effective November 27, 1996, the Company acquired the remaining outstanding shares of Deprenyl Animal Health, Inc.

The Company's investment in Stëf International Corporation was accounted for using the equity method. During 1997 the carrying value of this investment was written off.

The Company's investment in Bone Care International, Inc. is recorded at cost.

On an ongoing basis the Company reviews the carrying value of its investments. Any, other than temporary, impairment in the carrying value is charged to earnings in the year incurred.

Goodwill

Goodwill is recorded as an asset and is amortized on a straight-line basis over 10 years.

On an ongoing basis, management reviews the valuation and amortization of goodwill, including any events and circumstances which may have impaired fair value. The amount of goodwill impairment, if any, is determined by assessing recoverability based on expected, discounted, future cash flows using a discount rate reflecting the Company's cost of capital. Any, other than temporary, impairment in the carrying value is charged to earnings in the year incurred.

Inventory

Inventory is valued at the lower of cost and net realizable value and is determined on a first-in, first-out basis.

Fixed Assets

Fixed assets are recorded at cost. The Company provides for depreciation using the following methods and applying rates estimated to amortize the cost over the useful life of the assets:

Building	straight-line over 25 years
Computer equipment	30% diminishing balance
Laboratory equipment	20% diminishing balance
Manufacturing equipment	20% diminishing balance
Furniture and equipment	20% diminishing balance
Leasehold improvements	straight-line over 5 years

Patents, Licenses and Other Deferred Charges

Patents and trademarks are recorded at cost and amortized on a straight-line basis over 10 years.

Licenses are recorded at cost and consist of licenses to market certain regulatory approved pharmaceutical products in defined territories. The Company provides for amortization of licenses on the straight-line basis over the minimum term of the license agreement which in the case of the *Eldepryl*® license is 15 years and *Permax*® 10 years.

Purchased research and development costs, which relate to acquired research and development costs, are recorded at cost and amortized on a straight-line basis over 10 years.

Deferred financing costs, which relate to the costs associated with the issuance of warrants in connection with debt financing, are recorded at cost and are amortized on a straight-line basis over the term of the warrants.

The cost of the right to technical assistance is amortized on a straight-line basis over the minimum term of the related agreement which is 15 years.

Research and Development Costs

Research and product development costs incurred by the Company, including the cost of licenses for products under development, net of any government assistance and investment tax credits are expensed as incurred.

Foreign Currency Translation

Monetary assets and liabilities of integrated foreign subsidiaries are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates during

the year. Exchange gains or losses arising on translation are included in the determination of net income for the year, except for long-term monetary assets and liabilities which are deferred and amortized over the remaining lives of the related items on a straight-line basis.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses for the year then ended. Actual results may differ from such estimates.

Comparative Information

The Company has reclassified certain prior years' information to conform with the current presentation format.

2. ACQUISITIONS

(a) DRAXIS Pharma Inc.

Effective May 1, 1998, the Company acquired the assets and business of a pharmaceutical manufacturing facility from Baker Cummins Inc. ("BCI"), a subsidiary of IVX BioScience Inc., and continued operations through the Company's wholly owned subsidiary, DRAXIS Pharma Inc.

The acquisition was accounted for using the purchase method as follows:

ASSETS	
Net current assets	$ 4,024
Property, plant and equipment (net of government assistance of $1,086)	11,794
Total acquisition cost	$ 15,818
CONSIDERATION	
Cash	$ 14,548
Notes payable due BCI, at discounted value (*)	1,270
	$ 15,818

(*) Under the terms of the purchase and sale agreement any operating losses incurred within 24 months of acquisition up to $1,511, were to be funded by BCI. The Company has the right to offset the amount payable under the note by the amount of these losses. As at December 31, 1998, $91 remained owing in respect of this note.

(b) Draximage Inc.

On July 1, 1997, the Company acquired the assets and business of the radiopharmaceutical division of Merck Frosst Canada Inc. and continued operations of this business through the Company's wholly owned subsidiary, Draximage Inc.

(c) Spectro-Pharm Inc.

On February 14, 1997, the Company acquired the outstanding shares of Spectro-Pharm Inc. Spectro-Pharm Inc. was amalgamated with the Company on October 1, 1997.

The 1997 acquisitions were accounted for by the purchase method, as follows:

	Draximage Inc.	Spectro-Pharm Inc.	1997 Total
ASSETS			
Cash and marketable securities	$ —	$ 100	$ 100
Accounts receivable	—	338	338
Inventory	—	645	645
Purchased research and development costs	6,289	—	6,289
Patents and trademarks	3,103	—	3,103
Fixed assets	869	23	892
Other	—	16	16
Goodwill	1,594	9,043	10,637
	11,855	10,165	22,020
LIABILITIES			
Accounts payable	—	1,051	1,051
Subtotal	11,855	9,114	20,969
Less: cash acquired	—	100	100
Net assets acquired	$ 11,855	$ 9,014	$ 20,869
CONSIDERATION			
Cash	$ 8,010	$ 9,114	$ 17,124
Note payable (Note 9)	3,845	—	3,845
	$ 11,855	$ 9,114	$ 20,969

(in thousands of Canadian dollars except share related data)

3. *ANIPRYL®* LICENSE AND RELATED AGREEMENTS

In December 1997, the Company entered into a global alliance with Pfizer Inc. whereby Pfizer Inc. assumed the worldwide marketing and selling responsibilities for *Anipryl®* as part of a comprehensive four part arrangement, which included:

License Agreement which provides for payments of up to US$41,090 as follows: US$15,090 was received in 1997 for the disposition of the Company's right title and interest in the Canadian and United States Cushing's disease registrations and the Canadian Cognitive Dysfunction Syndrome, US$10,000 was received pursuant to United States regulatory approval of the cognitive dysfunction supplementary claim and US$3,000 was received as a result of Australia approvals. An additional US$13,000 is due upon receipt of regulatory approvals for *Anipryl®* in specified countries.

Royalty Agreement which provides for royalties based on Pfizer Inc.'s worldwide sales of *Anipryl®*.

Supply Agreement which provides for the Company to supply *Anipryl®* to Pfizer Inc.

R&D Agreement which provides for a research collaboration between the Company and Pfizer Inc. with respect to *Anipryl®*.

4. ACCOUNTS RECEIVABLE

	1998	1997
Accounts receivable – trade	$ 7,323	$ 5,755
Allowance for doubtful accounts	(28)	(28)
Accounts receivable – milestones	19,903	—
Interest and other receivables	—	553
Loans to employees	77	90
	$ 27,275	$ 6,370

The loans to employees are non-interest bearing.

In January 1999, the Company received $19,903 (US$13,000) from Pfizer Inc. pursuant to jurisdictional approvals received for *Anipryl®*, as further discussed in Note 3.

5. LONG-TERM INVESTMENTS

	1998	1997
Bone Care International, Inc. (quoted market value – 1998 – $4,215; 1997 – $3,320)	$ 691	$ 691
Stëf International Corporation		
Investment in common shares (quoted market value – 1998 – nil 1997 – $200)	—	958
Note receivable and advances	—	806
Equity share of losses	—	(482)
Write-off of investment (Note 12)	—	(1,282)
	$ 691	$ 691

During 1997, the Company wrote off its investment in Stëf International Corporation.

6. FIXED ASSETS

	1998	1997
Land	$ 2,693	$ —
Building	6,401	—
Computer equipment	1,186	780
Laboratory equipment	697	1,141
Manufacturing equipment	2,697	—
Furniture and fixtures	1,087	847
Leasehold improvements	58	58
Assets under construction	5,832	—
	20,651	2,826
Accumulated depreciation and amortization	(1,908)	(1,050)
	$ 18,743	$ 1,776

7. PATENTS, LICENSES AND OTHER DEFERRED CHARGES

	1998		
	Cost	Accumulated Amortization	Net Book Value
Licenses			
Eldepryl®	$ 1,330	$ 947	$ 383
Permax®	12,300	3,500	8,800
Anipryl®	1	1	—
Patents and trademarks			
Draximage	3,103	466	2,637
Purchased research and development costs	6,289	943	5,346
Deferred financing costs	520	272	248
Technical assistance	1,800	1,200	600
Other	18	—	18
	$ 25,361	$ 7,329	$ 18,032

	1997		
	Cost	Accumulated Amortization	Net Book Value
Licenses			
Eldepryl®	$ 1,330	$ 870	$ 460
Permax®	3,500	2,551	949
Anipryl®	1	1	—
Patents and trademarks			
Draximage	3,103	156	2,947
Purchased research and development costs	6,289	314	5,975
Deferred financing costs	520	72	448
Technical assistance	1,800	1,080	720
Other	78	—	78
	$ 16,621	$ 5,044	$ 11,577

Amortization of patents, licenses and other deferred charges was $2,085, $4,075 and $1,268 for the years ended December 31, 1998, 1997 and 1996, respectively. 1998 amortization expense of $200 on deferred financing costs has been included in financing expense.

8. DEFERRED INCOME TAXES

Deferred income taxes reflect the net tax effects of timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts applicable for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

	1998	1997
Loss and investment tax credit carryforwards	$ 4,881	$ 2,014
Licenses and other deferred charges	454	811
Other	151	381
	$ 5,486	$ 3,206

9. LONG-TERM DEBT

	1998	1997
$11,000 term bank loan facility repayable in 120 equal monthly instalments commencing once the funds have been fully disbursed. Fully secured by the assets of DRAXIS Pharma Inc., and bearing interest at Canadian prime plus 0.75%	$ 7,214	$ —
$4,500 note payable to Merck Frosst Canada Inc., unsecured, non-interest bearing, due in 2000. Discounted using a 7% interest rate	4,203	3,977
Obligation to Eli Lilly Canada Inc. under the terms of a license agreement, bearing interest at the Bank of Canada rate. $800 repayable over each of five years commencing 1999 and a further $400 repayable annually for seven years starting in 2002 (Note 17)	6,800	—
Less: amount due within one year	(800)	—
	$ 17,417	$ 3,977

Interest expense on the notes payable totalled $494 and $437 for the years ended December 31, 1998 and 1997, respectively.

The fair value of the long-term debt is considered to be equivalent to its carrying value based upon consideration of borrowings with similar credit ratings and maturities.

(in thousands of Canadian dollars except share related data)

10. CAPITAL STOCK

	1998	
	Number of Shares	Dollars
COMMON STOCK		
Balance at beginning of the year	**31,035,861**	**$ 58,214**
Issued during the year	**1,244,663**	**3,018**
Balance at end of the year	**32,280,524**	**$ 61,232**
ISSUED DURING THE YEAR		
Exercise of warrants	**570,000**	**$ 2,146**
Exercise of options	**633,424**	**844**
Exercise of participation shares	**41,239**	**28**
	1,244,663	**$ 3,018**

	1997	
	Number of Shares	Dollars
COMMON STOCK		
Balance at beginning of the year	29,263,602	$ 52,813
Issued during the year	1,772,259	5,401
Balance at end of the year	31,035,861	$ 58,214
ISSUED DURING THE YEAR		
Exercise of warrants	1,176,470	$ 3,847
Exercise of options	588,343	1,548
Exercise of participation shares	7,446	6
	1,772,259	$ 5,401

Warrants

Novopharm Limited

In December 1997, Novopharm Limited exercised warrants to purchase 1,176,470 shares of the Company at an exercise price of $3.27 per warrant for proceeds of $3,847.

On April 19, 1995 the Company issued 500,000 warrants to Novopharm Limited each of which are exercisable to April 18, 2000 to purchase one common share of the Company at $2.09. The Company issued the warrants to Novopharm Limited in exchange for Novopharm Limited's grant of a six month extension of a profit sharing agreement between the two companies.

Underwriters

In April 1998, a warrant to purchase 300,000 common shares at $4.25 per share was exercised by the Company's underwriters, for proceeds of $1,275.

Other

In connection with borrowings incurred related to the acquisition of the radiopharmaceutical division of Merck Frosst Canada Inc., the Company issued to a financial institution a non-assignable warrant to purchase 750,000 shares at $3.70 per share on or before July 31, 2000. Pursuant to the terms of this warrant, the number of exercisable shares was reduced to 600,000 as a result of the early repayment of the related borrowings in 1997.

Included as a component of shareholders' equity and deferred financing charges is $520, which represents the cost of the above warrant. The fair value of the warrant was estimated at the date of issue using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 40%, risk-free interest rate of 5.5%, and expected life of three years.

In May and June of 1998, warrants to purchase 270,000 common shares at US$2.22 per share were exercised for aggregate proceeds of $871 (US$599).

In aggregate, there were 1,100,000, 1,670,000, and 2,246,470 warrants outstanding at December 31, 1998, 1997 and 1996, respectively.

Stock Option Plan

The Board of Directors has adopted a stock option plan in order to provide an incentive for directors, officers and employees. The plan provides that the Board of Directors may, from time to time, at its discretion, grant to directors, officers and employees, the option to purchase common shares. The Board of Directors will determine the price per common share and the number of common shares which may be allotted to each designated director, officer or employee and all other terms and conditions of the option in accordance with the applicable requirements of any relevant regulatory authority or stock exchange. These options will be exercisable for a period not exceeding ten years from the date of the grant.

On June 25, 1998, the Board of Directors received shareholder approval to increase the maximum number of options for issuance under the stock option plan from 4,500,000 to 5,500,000. Coincident with obtaining this approval, the Board of Directors adopted a guideline limiting the aggregate number of common shares that can be issued at any point in time, either through the exercise of options or the conversion of Employee Participation Shares, to 13% of the Company's outstanding common shares.

Information pertaining to options for the years ended December 31, 1998 and 1997 is set forth in the following table:

	1998	1997
Options outstanding, beginning of year	**2,771,424**	3,127,767
Options granted	**1,116,500**	242,000
Options exercised	**(633,424)**	(588,343)
Options cancelled or expired unexercised	**(78,333)**	(10,000)
	3,176,167	2,771,424
Options exercisable, end of year	**1,618,000**	1,871,778
Options prices per share:		
Exercised during the year – range	**$0.34 to $3.91**	$0.33 to $3.11
– weighted average	**$1.33**	$2.63
Granted during the year	**$2.70 to $4.42**	$3.00 to $4.29

Employee Participation Share Plan

On February 16, 1995, the Company established the Employee Participation Share Plan for the directors, officers and employees of the Company to tie employee compensation more closely to shareholder value. The Employee Participation Share Plan was approved by the shareholders on June 16, 1995. The Board of Directors has provided that it would be a condition to receiving any benefit from the Employee Participation Share Plan that the share price have appreciated at least 25% from the date of issuance of any Participation Shares. The maximum number of Participation Shares issuable pursuant to the Employee Participation Share Plan is 2,000,000.

Vesting takes place over a four year period at the rate of 20%, 20%, 20% and 40% commencing on the first anniversary of the issuance of the Participation Shares and for each of the three years thereafter with the exception of 500,000 Participation Shares held by an officer of the Company which vest at the rate of 10%, 20%, 30% and 40%. Vested Participation Shares are automatically convertible into shares of the Company at the election of the holder, provided that the shares have increased in value since the date of issuance of the vested Participation Shares by the aforementioned 25%. The number of Company shares a participant will receive when converting Participation Shares is determined by multiplying the number of Participation Shares held by a participant by a fraction whose numerator is the amount by which the fair market value of a share at the date of conversion exceeds the fair market value of a share as at the date on which the Participation Shares were issued and whose denominator is the fair market value of the shares at the date of conversion.

On February 16, 1995, the Board of Directors of the Company authorized the issuance of 975,000 Series A Participation Shares at a subscription price of $0.30 each. The average of the daily high and low board lot trading prices on each of the five trading days on the Toronto Stock Exchange immediately preceding the issuance of the Series A Participation Shares was $2.45.

On December 18, 1995, the Board of Directors of the Company authorized the issuance of 555,000 Series B Participation Shares at a subscription price of $0.30 each. The average of the daily high and low board lot trading prices on each of the five trading days on the Toronto Stock Exchange immediately preceding the issuance of the Series B Participation Shares was $2.25.

The shares have been issued for $0.30 per share and paid for by the employees through the issuance of a limited recourse promissory note and are secured against the shares.

Information pertaining to Employee Participation Shares for the years ended December 31, 1998 and 1997 is set forth in the following table:

	1998	1997
Participation shares outstanding, beginning of year	**1,274,500**	1,319,000
Participation shares exercised	**(93,500)**	(21,500)
Participation shares cancelled	**(63,500)**	(23,000)
Participation shares outstanding, end of year	**1,117,500**	1,274,500
Participation shares exercisable, end of year	**1,117,500**	680,700

(in thousands of Canadian dollars except share related data)

Stock-Based Compensation

United States generally accepted accounting principles require disclosure or recognition of compensation expense related to its stock-based compensation plans. Had compensation cost for stock option plans (including the Employee Participation Share Plan) been determined based upon fair value at the grant date for awards under these plans consistent with the methodology prescribed under Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*," the Company's net income and earnings per share under U.S. GAAP would have been reduced (increased) by approximately $1,067 or $0.03 per share, $754 or $0.03 per share and ($568) or ($0.03) per share in the years 1998, 1997 and 1996, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grant; dividend yield 0% (1997 and 1996 – 0%), expected volatility 65–70% (1997 and 1996 – 50%), risk-free interest rate of 4.7% (1997 and 1996 – 5.5%) and expected average lives for 1998, 1997 and 1996 of five years.

11. RESTRUCTURING CHARGES

Pursuant to a change in business strategy in 1998, the Company discontinued detailing SpectroDerm® to dermatologists in the United States while continuing to explore options to maximize this product's future value to the Company. With respect to this initiative, the Company took a pre-tax restructuring charge of $2,500 comprised of a write-down in the carrying value of inventory, a provision for product returns, as well as severance and other one time costs.

12. OTHER (EXPENSE) INCOME

	1998	1997	1996
Writedown of goodwill and other intangibles	$ —	$ (1,277)	$ —
Write-off of Stëf investment	—	(1,282)	—
Gain on sale of securities	—	—	6,111
	$ —	$ (2,559)	$ 6,111

Writedown of Goodwill and Other Intangibles

The Company concluded that the results of its research into the development of a prescription pharmaceutical based on the liposomal delivery system acquired from Lipopharm Inc. did not meet expectations and consequently development in this area ceased. As a result, the net book value of goodwill associated with Lipopharm Inc. and related intangibles were written off in fiscal 1997.

Write-off of Investment in Stëf International Corporation

Since its acquisition in August of 1996, Stëf had incurred continuing operating losses, negative cash flows and a significant decline in quoted market value below the Company's carrying value of this investment. In 1997, the Company determined that the loss in value of this investment was permanent and consequently the investment was written off.

13. INCOME TAXES

The major factors giving rise to differences between statutory income tax rates and the Company's consolidated effective income tax rate are set forth in the following table:

	1998	1997	1996
Canadian federal and provincial tax rate	43%	39%	39%
United States federal and state tax rate	34%	34%	34%
Income taxes based on the Canadian and U.S. statutory rates	$ 2,093	$ (1,788)	$ 268
Tax effect of:			
Losses not recognized in prior year	(244)	—	—
Capital gains	—	(261)	(945)
Non-deductible portion of amortization of intangible assets	507	475	218
Writedown of goodwill and write-off of investment	—	720	—
Other permanent differences	304	261	141
	$ 2,660	$ (593)	$ (318)

14. EQUITY SHARE OF LOSS OF AFFILIATED COMPANIES

	1998	1997	1996
Equity share of loss of:			
Stëf International Corporation	$ —	$ (228)	$ (254)
Deprenyl Animal Health, Inc.	—	—	(955)
	$ —	$ (228)	$ (1,209)

15. EARNINGS PER SHARE

Earnings per share is based on the weighted average number of common shares outstanding (basic) adjusted, to the extent they are dilutive, for outstanding stock options and stock purchase warrants (fully diluted).

16. RELATED PARTY TRANSACTIONS

Significant transactions not otherwise disclosed in the accompanying financial statements, were as follows:

	1998	1997	1996
Net contribution from the sales of a product by a company which is a shareholder included in income from operations (total revenues: 1998 – $2,999; 1997 – $5,547; 1996 – $7,120)	**$ 845**	$ 1,598	$ 2,063
Rent paid to a company jointly controlled by a member of the Board of Directors included in selling, general, and administration expenses	**169**	169	146
Interest received from a significantly controlled investee, prior to acquisition, included in interest income	—	—	254

The aforementioned transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

17. COMMITMENTS

Agreements with Mylan Pharmaceuticals Inc.

On September 24, 1997, the Company and Mylan Pharmaceuticals Inc. ("Mylan") announced that a framework for an ongoing collaboration had been developed whereby the Company would exclusively register, market, sell and distribute certain generic products in Canada. Under an agreement, the receipt of formulary approval in Ontario or Québec for the first of such generic drugs, would necessitate a payment to Mylan of US$120. The agreement is for an initial term of seven years from the date of product approval by the Health Protection Branch with automatic one year renewals at the option of both parties. The Company paid US$60 upon execution of the agreement.

On January 3, 1997, the Company entered into a supply and distribution agreement with Mylan for the exclusive Canadian rights to market, sell and distribute the Mylan formulation of the cancer drug Paclitaxel. The agreement is for an initial term of five years from the date of product approval by the Health Protection Branch with automatic one year renewals at the option of both parties.

In accordance with both agreements, a formula was agreed to between the parties providing for the sharing of profits from the marketing and selling of the generic product and Paclitaxel in Canada. Also, beginning with the first commercial sale, the Company is further obligated to meet certain minimum purchase requirements in any given year or the agreement could be terminated at Mylan's option.

Agreements Pertaining to the Acquisition of the Radiopharmaceutical Division of Merck Frosst Canada Inc.

In connection with the acquisition of the assets and business of the radiopharmaceutical division of Merck Frosst Canada Inc. ("MFCI") in July 1997 (Note 2), the Company is required to pay to MFCI a retained financial interest calculated as an amount equal to 7.5% of the net sales of new products currently under development. The retained financial interest is payable quarterly for a period which is the greater of 10 years from commercial launch of the new product, or, if a patent has been issued or applied for, the period from commercial launch of the new product until expiry of the patent.

The Company assumed various royalty agreements which require certain fixed payments and variable payments ranging between 5% and 20% of the net sales of new products currently under development for terms ranging between 12 years and the period until expiry of the patents.

In addition, up to $1,500 may become payable to MFCI based on the receipt of U.S. regulatory approval for certain product rights acquired.

Agreement Pertaining to Alertec™

During November 1992, the Company entered into an exclusive license agreement with Laboratoire L. Lafon for the right to market in Canada any product containing the compound *Modafinil*. The cost of the license consisted of a cash payment of US$150 and the Company paid an additional US$150 upon filing a New Drug Submission in June 1993. In early 1999, the

Company made a further cash payment of US$300 upon receipt of Canadian regulatory approval to market such product for narcolepsy. Under the terms of the agreement, royalties calculated at 7% of net sales apply during the first three years from the date of product launch. Thereafter, for a further period of 12 years, royalties are calculated at 9%.

Agreement Pertaining to Supply of l-deprenyl

On October 1, 1990 and subsequently amended on July 5, 1995, DAHI entered into an exclusive supply agreement with Chinoin Pharmaceutical and Chemical Works Co. Ltd. ("Chinoin") whereby Chinoin has agreed to manufacture and supply the Company's requirements for l-deprenyl in Canada and the United States. The agreement ends on the earliest of (i) ten years from the date of first arm's length sale in Canada or the United States of the product by DAHI subsequent to approval; (ii) November 22, 2003, or any extended expiration date agreed to by Chinoin and DAHI under a license agreement between them; or (iii) a determination date pursuant to provisions regarding *force majeure* or certain other events.

Agreement Pertaining to Permax® License

On May 8, 1998 the Company and Eli Lilly Canada Inc. ("Lilly") entered into an agreement to renew DRAXIS' exclusive Canadian license for *Permax®* (pergolide mesylate), until December 31, 2008 with automatic yearly renewals thereafter. As part of this agreement, $2,000 was paid to Lilly on December 31, 1998 with a further $800 plus interest payable at the Bank of Canada rate over each of the next five years. In addition, a further amount of up to $2,800, plus interest, is payable to Lilly over the term of the license depending on certain specified market conditions.

Agreement with Molecular Targeting Technology, Inc.

On June 15, 1998 the Company established a strategic alliance with Molecular Targeting Technology, Inc. ("MTTI") to develop, manufacture and market potential novel imaging agents. The first opportunity which will be pursued under this alliance is *Amiscan®*, a formulation of Technetium-99m glucarate being developed for the diagnosis of acute myocardial infarction. Under the terms of the agreement, US$50 has been paid, with a further US$450 payable upon the achievement of specified milestone events.

Enterprise Resource Planning System ("ERP")

During 1998, $600 was spent towards the installation of a new ERP system. The Company estimates a further $1,800 will be spent during 1999 to complete this project. The costs associated with this project have been recorded as an addition to fixed assets.

Other

The Company has established a long-term incentive plan for senior management of Draximage. The terms of the plan provide that, subject to the achievement of certain conditions, the Company will make payments to plan participants in the form of cash and/or DRAXIS common shares, at the Company's option, based on increases in the fair market value of Draximage's equity in excess of DRAXIS' acquisition cost. During 1998 the Company recorded $200 in its accounts in respect of this plan.

The Company is committed under operating leases requiring minimum lease payments of $600 in 1999 and $450 per annum thereafter.

18. FINANCIAL INSTRUMENTS

The fair value of cash, accounts receivable, accounts payable and accrued charges are equivalent to their carrying value because of the short-term maturity of those instruments. The fair value of long-term investments is determined based on quoted market prices. The Company is not party to any significant derivative instruments.

The Company is subject to credit risk through trade receivables, note receivable included in long-term investments and short-term cash investments. Credit risk with respect to trade receivables is limited given the creditworthiness of the counterparties. Exposure to credit risk associated with the note receivable is determined by reviewing the fair value of the Company's total investment, which includes the carrying value of the note receivable. The Company places its temporary excess cash investments in high quality government securities and short-term commercial paper.

The Company is subject to currency risk through its U.S. integrated foreign operations. Changes in the exchange rate may result in a decrease or increase in the foreign exchange gain or loss. The Company does not actively use derivative instruments to reduce its exposure to foreign currency risk.

19. SEGMENTED INFORMATION

Industry Segmentation

For purposes of operating decision-making and assessing performance, management considers that it operates in four separate businesses: Canadian pharmaceuticals, radiopharmaceuticals, companion animal health and manufacturing.

Due to their magnitude, milestone payments are disclosed separately, but for management purposes are considered part of the companion animal health business.

1998	Canadian Pharmaceuticals	Radio-pharmaceuticals	Companion Animal Health	Manufacturing	Milestone Payments	Head Office	Total
Revenues	**$ 14,095**	**$ 7,508**	**$ 2,879**	**$ 8,956**	**$ 19,903**	**$ —**	**$ 53,341**
Segment Income[1]	**(6,110)**	**2,538**	**417**	**—**	**19,903**	**(4,951)**	**11,797**
Identifiable Assets	**30,211**	**13,323**	**23,739**	**23,364**	**—**	**—**	**90,637**
1997							
Revenues	$ 16,215	$ 3,123	$ 3,952	$ —	$ 21,198	$ —	$ 44,488
Segment Income[1]	814	839	(3,185)	—	(6,756)	(4,485)	(12,773)
Identifiable Assets	35,981	13,689	9,189	—	—	—	58,859
1996							
Revenues	$ 13,820	$ —	$ 280	$ —	$ —	$ —	$ 14,100
Segment Income[1]	(48)	—	(1,906)	—	—	(3,335)	(5,193)
Identifiable Assets	37,903	—	29,636	—	—	—	67,539

1 Segment earnings before interest, taxes, depreciation, amortization, other expenses and equity share loss.

Geographic Segmentation

	1998	1997	1996
REVENUES (*)			
Canada	**$ 22,643**	$ 17,465	$ 13,198
United States	**30,698**	27,023	902
	$ 53,341	$ 44,488	$ 14,100
IDENTIFIABLE ASSETS			
Canada	**$ 64,496**	$ 46,261	$ 37,916
United States	**26,141**	12,598	29,623
	$ 90,637	$ 58,859	$ 67,539

(*) Revenues are attributable to countries based upon the location of the customer.

Major Customers

Excluding milestone payments, 1998 revenues attributable from one major customer represented approximately $6,000 (1997 – N/A) of the Company's total revenues.

(in thousands of Canadian dollars except share related data)

20. CASH FLOWS FROM OPERATING ACTIVITIES

	1998	1997	1996
Net income (loss) for the year	**$ 5,045**	$ (20,923)	$ (166)
Non-cash transactions reflected in net income (loss)			
Depreciation and amortization	**2,943**	4,374	1,428
Amortization of goodwill	**1,144**	1,144	267
Deferred income taxes	**(2,280)**	(2,870)	(1,439)
Equity share of net loss of affiliated companies	**—**	228	1,209
Writedown of goodwill, investment and other intangibles	**—**	2,559	—
Loss on sale of product rights	**—**	6,756	—
Amortization of deferred financing costs	**200**	72	—
Interest on long-term debt	**226**	132	—
Gain on sale of shares and options	**—**	—	(6,111)
	7,278	(8,528)	(4,812)
Changes in current assets and current liabilities affecting cash flows from operations			
Accounts receivable	**(19,715)**	(3,635)	(838)
Inventory	**1,900**	(1,025)	(704)
Marketable securities	**—**	—	109
Prepaid expenses	**398**	(461)	363
Accounts payable and accrued charges	**3,202**	1,725	(374)
Royalties payable	**—**	(212)	261
Income taxes	**4,620**	658	(695)
	(9,595)	(2,950)	(1,878)
Disposition of product rights			
Proceeds from sale of product rights, net	**—**	18,336	—
Cash flows (used in) from operating activities	**$ (2,317)**	$ 6,858	$ (6,690)

21. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")

The consolidated financial statements have been prepared in accordance with Canadian GAAP which conforms, in all material respects applicable to the Company, with U.S. GAAP during the years presented except for the following:

	1998	1997	1996
Net income (loss) for the year			
As reported under Canadian GAAP	$ 5,045	$ (20,923)	$ (166)
Adjustments to reported net income (loss)			
Gain on sale of product rights, net	—	23,813	—
Elimination of deferred research and development costs	—	(6,289)	—
Amortization of deferred research and development costs	632	315	—
Amortization of technical assistance costs	120	120	120
Amortization of patents and trademarks	—	2,435	220
Reduction (increase) in income tax expense due to differences in net income from Canadian to U.S. GAAP reconciling items	(292)	2,306	(1,165)
Increase in gain on sale of shares in affiliated company under U.S. GAAP	—	—	3,930
Elimination of patents and trademarks	—	—	(29,406)
Reversal of deferred taxes	—	—	(697)
	460	22,700	(26,998)
Net income (loss) as adjusted under U.S. GAAP	$ 5,505	$ 1,777	$ (27,164)
Earnings (loss) per share – U.S. GAAP – basic	$ 0.17	$ 0.06	$ (1.20)
– diluted	0.16	0.06	(1.20)
Average common shares and common share equivalents – U.S. GAAP	31,950,704	29,695,743	22,545,890

Earnings per Share

Under Canadian GAAP, basic earnings per share is computed using the weighted average number of shares outstanding during each period. For U.S. GAAP, the Company implemented the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, *"Earnings per Share"* as of December 31, 1997. The Statement replaced the Company's presentation of primary net (loss) earnings per share with a presentation of basic and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. All prior period weighted average and per share information has been restated in accordance with SFAS No. 128. The computation of diluted earnings (loss) per share does not include stock options and warrants with dilutive potential that would have an antidilutive effect on earnings per share.

Patents, Licenses and Other Deferred Charges

Technical assistance costs are payments made to a third-party licensor for technical assistance to be provided to the Company for product development, market penetration and clinical testing of new products.

Under Canadian GAAP these costs are deferred and charged to expense on a straight-line basis beginning in 1989.

Under U.S. GAAP these costs are charged to expense as incurred. During 1988 such costs were charged to expense for U.S. GAAP purposes. Commencing in 1989, amortization of these costs for Canadian GAAP has been added back to pre-tax income for U.S. GAAP reconciliation purposes.

Under Canadian GAAP, the acquisition of DAHI was accounted for by the purchase method of accounting. The cost of the purchase and amounts assigned to assets acquired and liabilities assumed were determined as of the date of acquisition. The excess of the purchase price over the fair value of the assets acquired of $29,406 ($26,468 – Canadian GAAP) was allocated to patents and trademarks.

(in thousands of Canadian dollars except share related data)

Under U.S. GAAP, the acquisition would also have been accounted for by the purchase method, however, the cost of the purchase would be calculated at the date of the share exchange agreement. The effect of this difference is that the amount assigned to the patents and trademarks for U.S. GAAP is $29,406. At the date of acquisition, the patent and trademark license had yet to receive regulatory approval for its significant indications and markets. Accordingly, the amount has been charged to expenses.

Under Canadian GAAP, included as a cost of the sale of product rights, is the unamortized patent and trademark cost of $23,813.

Under U.S. GAAP, in 1996 the unamortized patent and trademark costs were charged to expenses as at the date of acquisition. As a result of excluding this amount for U.S. GAAP, a gain on the sale of product rights has been recorded in 1997.

Under Canadian GAAP, the acquisition of the assets of Draximage Inc., formerly the radiopharmaceutical division of Merck Frosst Canada Inc. (see Note 2), was accounted for by the purchase method of accounting. Included in the amounts assigned to assets acquired is $6,289 of purchased research and development costs which represent amounts related to patents and trademarks for products which have yet to receive regulatory approval.

Under U.S. GAAP the acquisition would also have been accounted for by the purchase method, however, the amount related to the deferred research and development costs would be charged to expenses as at the date of acquisition as no alternative future use has been established. Commencing in 1998, amortization of the costs for Canadian GAAP has been added back to pre-tax income for U.S. GAAP reconciliation purposes.

Unrealized Investment Gains and Losses

Due to the acquisition of DAHI, the Company reviewed its investment strategy and as a result its investments were reclassified from "held to maturity" to "available for sale." SFAS No. 115 requires the Company to record securities which management has classified as available for sale at fair market value and to record unrealized gains and losses on securities available for sale as a separate component of shareholders' equity until realized. As at December 31, 1997, securities available for sale amounted to $3,137 and the unrealized gains of $5 would be recognized within shareholders' equity. For Canadian GAAP, investments are recorded at cost and gains and losses are recognized when realized.

Securities available for sale consist of Canadian treasury bills and commercial paper with yields ranging from 3.5% to 3.6% and maturity dates ranging from March 27, 1998 to September 17, 1998. At December 31, 1998 there are no such securities available for sale.

Deferred Taxes

Prior to the acquisition of DAHI, the Company established net deferred tax liabilities related to the dilution of its investment in the acquiree. As the Company has acquired DAHI, this liability no longer exists. For Canadian GAAP, the reversal of the deferred taxes has been credited against the share of the equity losses from DAHI. For U.S. GAAP, gains on dilution of investments were reflected as an equity transaction and the reversal of deferred taxes has been recorded similarly.

Research and Development Tax Credits

Under Canadian GAAP, R&D tax credits are included in loss from operations.

Under U.S. GAAP, R&D tax credits would have been included in the provision for income taxes. All R&D tax credits relate to activities conducted in Canada.

The effect of this difference is that for the years ended December 31, 1998, 1997 and 1996 R&D expenses would increase by $384, $280 and $296 respectively. Accordingly, income tax expense would decrease by these amounts for the respective years.

Shareholders' Equity

Shareholders' equity determined under U.S. GAAP as at December 31, 1998, 1997, and 1996, would increase (decrease) by $1,067, $612, and $(21,453) respectively, compared to the amounts determined under Canadian GAAP.

SIE rec: from 96&97:

	96	215
	112	3123
	34	<29187>
	111	1380
	43	< 553>
	19	<635>
98:	34	632
	96	120
	111	<2927>
	19	< 57
		1067

Consolidated Statements of Changes in Cash Flows

	1998	1997	1996
Net (decrease) increase in cash and cash equivalents under Canadian GAAP	**$ (16,586)**	$ (5,566)	$ 9,222
Net increase (decrease) in cash and cash equivalents (see note below)	**3,129**	20,376	(8,466)
Net increase (decrease) in cash under U.S. GAAP	**(13,457)**	14,810	756
Cash and cash equivalents at beginning of the year	**17,133**	2,323	1,567
Cash and cash equivalents at end of the year	**$ 3,676**	$ 17,133	$ 2,323

Treasury bills and commercial paper are considered cash equivalents for Canadian GAAP purposes. For U.S. GAAP purposes, only treasury bills and commercial paper with original maturities of three months or less are considered cash equivalents.

Additional Information Required under U.S. GAAP:

	1998	1997	1996
Income taxes (received) paid	**$ 439**	$ (538)	$ 1,828
Interest paid	**$ 494**	$ 305	$ —

New Statements of Financial Accounting Standards

In June 1997, the U.S. Financial Accounting Standards Board ("FASB") issued SFAS No. 130, *"Reporting Comprehensive Income"* which establishes standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Statement requires all items that are required to be recognized under accounting standards as components of comprehensive income be reported separately from the Company's accumulated deficit balance in a financial statement that is displayed with the same prominence as other financial statements. The implementation of this Statement in 1998 did not have a material impact on the consolidated financial statements.

In June 1997, the FASB issued SFAS No. 131, *"Disclosures about Segments of an Enterprise and Related Information."* The Statement establishes standards for the way that a public business enterprise reports information about operating segments in financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Statement is similar in all material respects to Canadian Institute of Chartered Accountants Handbook Sections 1701 and 1750, *"Segment Disclosures"* and *"Interim Financial Reporting to Shareholders"* which were incorporated in the Company's financial statements effective December 31, 1998.

In February and June 1998, respectively, the FASB issued SFAS No. 132 *"Employers' Disclosure About Pensions and Other Post Retirement Benefits"*, and SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"*. The situations described in these two standards do not apply in the case of the Company, and therefore these standards have not been adopted.

22. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. in addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

The Company's efforts in preparing for Year 2000 issues are further explained within the "Risks and Uncertainties" section of Management's Discussion and Analysis.

(in thousands of Canadian dollars except share related data)

HISTORICAL FINANCIAL INFORMATION

	1998	1997	1996	1995	1994
OPERATIONS					
Revenues	**$ 53,341**	$ 44,488	$ 14,100	$ 15,434	$ 16,243
Research and Development Expenses	**3,242**	2,271	1,444	1,937	1,545
EBITDA[1]	**11,797**	(12,773)	(5,193)	653	4,968
Net (Loss) Income	**5,045**	(20,923)	(166)	2,417	1,099
FINANCIAL POSITION					
Cash and Cash Equivalents	**3,676**	20,262	25,828	16,606	11,691
Total Assets	**90,637**	58,859	67,539	35,052	33,062
Shareholders' Equity	**56,891**	48,828	63,830	29,849	27,159
CHANGES IN FINANCIAL POSITION					
Operating Cash Flow	**(2,317)**	6,858	(6,690)	2,267	6,295
PER COMMON SHARE					
Net (Loss) Income	**0.16**	(0.70)	(0.01)	0.12	0.06
Shareholders' Equity	**1.76**	1.57	2.18	1.48	1.36
SHARE INFORMATION					
Number of Shares Outstanding at End of Year	**32,280,524**	31,035,861	29,263,602	20,126,718	20,019,297
Weighted Average Number of Shares Outstanding	**31,950,704**	29,695,743	22,545,890	20,058,062	19,927,427

QUARTERLY FINANCIAL RESULTS (UNAUDITED)

1998 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31	Total
Revenues	**$ 5,281**	**$ 9,452**	**$ 9,794**	**$ 28,814**	**$ 53,341**
EBITDA[1]	**(808)**	**(1,191)**	**(863)**	**14,659**	**11,797**
Net (Loss) Income	**(1,025)**	**(1,087)**	**(1,268)**	**8,425**	**5,045**
Net (Loss) Income per Common Share	**(0.03)**	**(0.04)**	**(0.04)**	**0.27**	**0.16**

1997 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31	Total
Revenues	$ 3,350	$ 5,548	$ 6,164	$ 29,426	$ 44,488
EBITDA[1]	(2,131)	(1,116)	(1,623)	(7,903)	(12,773)
Net Loss	(2,561)	(2,031)	(2,919)	(13,412)	(20,923)
Net Loss per Common Share	(0.09)	(0.07)	(0.10)	(0.44)	(0.70)

1996 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31	Total
Revenues	$ 3,322	$ 3,703	$ 3,334	$ 3,741	$ 14,100
EBITDA[1]	(1,589)	(1,070)	(1,711)	(823)	(5,193)
Net (Loss) Income	3,032	(1,166)	(1,538)	(494)	(166)
Net (Loss) Income per Common Share	0.15	(0.06)	(0.07)	(0.03)	(0.01)

1 Earnings (loss) before depreciation and amortization, financial income (expense), other income (expense), income taxes and equity share of loss of affiliated companies.

OFFICERS & DIRECTORS

Brian M. King[1]
Director and Chairman

James P. Doherty[2, 3]
Director and Vice Chairman

Martin Barkin, MD, BScMed, MA, FRCSC
Director, President CEO, COO

Leslie L. Dan[2]
Director

George M. Darnell[2]
Director

Samuel Sarick[1, 2, 3]
Director

Stewart D. Saxe[1]
Director

John A. Vivash[3]
Director

Jim A.H. Garner
Senior Vice President, Finance and Chief Financial Officer

Jacqueline H.R. Le Saux, MBA, LL.B
Senior Vice President, Secretary and Chief Development Officer, and President, DAHI

Roger Mailhot, PhD
Vice President, Scientific and Regulatory Affairs

Jack A. Carter
Vice President, Human Resources

Dan Brazier
President, DRAXIS Pharmaceutica

Raymond Doré
President, Draximage Inc.

Dwight Gorham
President, DRAXIS Pharma Inc.

1 Member of the Compensation Committee
2 Member of the Audit Committee
3 Member of the Nominating Corporate Governance Committee

SHAREHOLDER INFORMATION

Form 20-F

For regulatory purposes in the United States, the Company files an Annual Report with the Securities and Exchange Commission. A copy may be obtained by any shareholder upon request to the Company.

Stock Listings

DRAXIS Health Inc. common shares are listed in Canada on the Toronto Stock Exchange (TSE) and in the United States on the National Association of Securities Dealers and Quotations Inc. (NASDAQ).

In 1998 share trading volume on the TSE was 11,749,818 shares or an average of 46,626 shares per trading day. In 1998 share trading volume on the NASDAQ was 16,582,154 shares or an average of 65,802 shares per trading day.

Stock Performance (based on $100 invested on December 31, 1993)

Over the past five years, the annual compounded return on DRAXIS shares was 12.8%, as compared with the TSE 300 index of 8.5%.

Transfer Agent and Registrar

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Corporate Services Division
Stock and Bond Transfer Services
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(416) 981-9800 fax

Stock Symbols

TSE: DAX
NASDAQ: DRAXF

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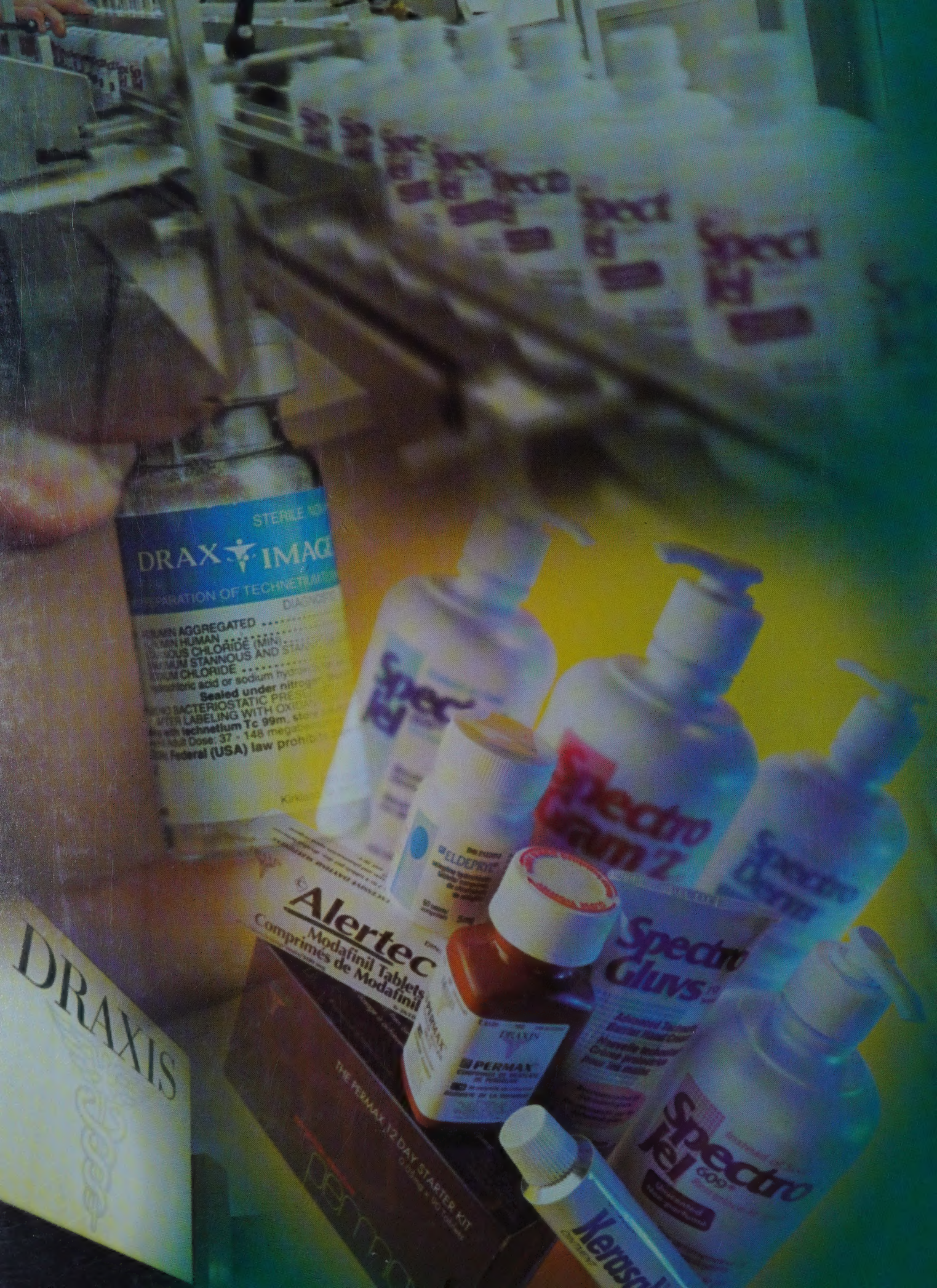
McCarthy Tétrault
Toronto, Ontario

Auditors

Deloitte & Touche LLP


DRAX IMAG
Alertec
Modafinil Tablets
Comprimés de Modafinil
Spectro Gluvs
DRAXIS